89-1214

Supreme Court, U.S.
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No.

In the

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1989

ORTHOKINETICS, INC. and
EDWARD J. GAFFNEY,

Petitioners,

v.

PENOX TECHNOLOGIES, INC. and
LARRY HOHOL,

Respondents.

PETITION AND APPENDIX FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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QUESTIONS PRESENTED

Question 1.

Are this Court's precedents in labor arbitration cases the Federal common law that defines the standard of review for proceedings to vacate commercial arbitration awards under the Federal Arbitration Act, 9 U.S.C. § 10(d)?

Question 2.

Does the District Court have jurisdiction to grant a motion for extension of time to appeal by an "other party" under Fed.R.App.P. 4(a)(3) and 4(a)(5) between 60 days and 74 days from the timely filing of a first notice of appeal?

PARTIES TO THE PROCEEDINGS BELOW

The parties to the proceedings below are:

1. Orthokinetics and Edward Gaffney, Appellants (Petitioners herein); and

2. Penox Technologies, Inc. and Larry Hohol, Appellees (Respondents herein).

STATEMENT PURSUANT TO RULE 29.1

Neither Orthokinetics, Inc. nor Penox Technologies, Inc. is a publicly held corporation.

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IN THE
SUPREME COURT OF THE UNITED STATES

October Term, 1989

No. ____

ORTHOKINETICS, INC. and
EDWARD J. GAFFNEY,

Petitioners,

v.

PENOX TECHNOLOGIES, INC. and
LARRY HOHOL,

Respondents.

PETITION FOR WRIT OF CERTIORARI

Petitioners Orthokinetics, Inc. and Edward Gaffney respectfully pray that Writ of Certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Third Circuit entered November 3, 1989 in this case.

OPINIONS BELOW

The opinion of the United States District Court for the Middle District of Pennsylvania is attached (App. 11).

The decision of the Court of Appeals for the Third Circuit is unpublished and is attached (App. 1).

JURISDICTION

Jurisdiction of this Court to review the decision of the Federal Circuit is invoked under 28 U.S.C. §1254(1).

STATUTES AND RULES INVOLVED

9 U.S.C. § 1 and § 10(d):

9 USCS § 1
§ 1. "Maritime transactions" and "commerce" defined; exceptions to operation of title

"Maritime transactions", as herein defined, means charter parties, bills of lading of water carriers, agreements relating to wharfage, supplies furnished vessels or repairs to vessels, collisions,

or any other matters in foreign commerce which, if the subject of controversy, would be embraced within admiralty jurisdiction; "commerce", as herein defined, means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation, but nothing herein contained shall apply to contracts of employment of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce.

9 USCS § 10

§ 10. Same; vacation; grounds; rehearing

In either of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration–

(a) Where the award was procured by corruption, fraud, or undue means.

(b) Where there was evident partiality or corruption in the arbitrators, or either of them.

(c) Where the arbitrators were guilty of misconduct in refusing the postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(d) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.
(e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators.

Fed.R.App.P. 4:

Fed.R.App.P. 4(a):
(a) Appeals in Civil Cases.

(1) In a civil case in which an appeal is permitted by law as of right from a district court to a court of appeals the notice of appeal required by Rule 3 shall be filed with the clerk of the district court within 30 days after the date of the entry of the judgment or order appealed from ...

* * *

(3) If a timely notice of appeal is filed by a party, any other party may file a notice of appeal within 14 days after the date on which the first notice of appeal was filed, or within the time otherwise prescribed by this Rule 4(a), whichever period last expires.

* * *

(5) The district court, upon a showing of excusable neglect or good cause, may extend the time for filing a notice of appeal upon motion filed not later than 30 days after the expiration of the time prescribed by this Rule 4(a). Any such

motion which is filed before expiration of the prescribed time may be *ex parte* unless the court otherwise requires. Notice of any such motion which is filed after expiration of the prescribed time shall be given to the other parties in accordance with local rules. No such extension shall exceed 30 days past such prescribed time or 10 days from the date of entry of the order granting the motion, whichever occurs later.

STATEMENT OF THE CASE

This is an Appeal of a judgment confirming an arbitration award and denying a Motion to Vacate the Award in American Arbitration Association Case No. 14 133 0109 88 B/E LU Penox Technologies, Inc. and Orthokinetics, Inc. and Edward J. Gaffney. The arbitration related to a patent license which was part of a settlement in a patent infringement suit commenced by the owners of the Patent Orthokinetics, Inc. and Edward J. Gaffney against the infringers Penox Technologies, Inc., Larry Hohol, Edward Stanks and Joel F. Guerrin, CV-85-1697, in the United States District Court for the Middle District of Pennsylvania.

The patent infringement action was settled with a consent decree of dismissal with prejudice and a patent license granted by Plaintiff, Orthokinetics and Edward Gaffney to Penox for the patent-in-suit U.S. Patent 4,007,960. The license granted to Penox the right to

continue to manufacture recliner lift chairs, which were the subject of the patent infringement suit, and pay a royalty under the terms and conditions of the patent license. The patent license contained a most favored nation clause and pursuant to that clause Penox adopted the terms of a subsequent patent license granted to a Mississippi company, Super Sagless. Penox sought arbitration to change the license agreement adopted from Super Sagless so that Penox would only have to pay a $15.00 per chair royalty no matter what product was sold - a base or a chair not 5% or $15.00 per chair whichever is greater.

The arbitrator made an award changing the adopted Penox license terms so that the license would only require a royalty from Penox on the metal chair base and mechanism but not the upholstered part of the chair and also awarded damages to Penox of $32,123.13 for royalties based on the prior Penox agreement which Penox contended it over-paid (App. 30). Penox's demand for arbitration sought damages in the amount of $55,298.53. Orthokinetics filed a Petition or Motion to Vacate the award under the Federal Arbitration Act on the ground that the arbitrator rewrote the royalty provision in the Orthokinetics-Penox license which action was beyond the power of the arbitrator under 9 U.S.C. § 10(d).

The District Court entered judgment on April 18, 1989 dismissing the motion to vacate the award and

granting judgment on the award (App. 28). The District Court relied on the standard of review in labor arbitration cases.

Orthokinetics filed a Notice of Appeal on May 16, 1989, within 30 days of the judgment (App. 32). Edward Gaffney, one of the Petitioners to vacate the arbitration award, was not included on the first Notice of Appeal. When attorneys for Orthokinetics and Edward Gaffney became aware of this deficiency, they filed a Motion for extension of time to file a Notice of Appeal as an "other party" under Fed.R.App. 4(a)(3), 4(a)(5), together with a Notice of Appeal, on June 29, 1989 (App. 34). The District Court granted the Motion for extension of time and modified the caption of the Notice of Appeal to include Edward Gaffney as appellant in this appeal. Penox Technologies and Larry Hohol filed a Motion for Reconsideration of the order adding Edward Gaffney as appellant. The Motion was denied (App. 41).

The Court of Appeals for the Third Circuit held that the District Court had no jurisdiction to act on the Motion for Extension of Time of Gaffney because more than 60 days had elapsed since the District Court had entered its final order and the Motion for Extension of Time was filed 72 days after the Court entered its final order. The Court of Appeals ignored the 14 day period of 4(a)(3) for another party to appeal as it applied to Gaffney.

The Court of Appeals affirmed the decision of the

District Court in affirming the arbitration award and denying the Petition to Vacate the Award (App. 1). The Court of Appeals relied on Third Circuit precedents in labor arbitration cases, and held that the arbitrator's award was not irrational or did not fail to draw its essence from the royalty agreement at issue.

REASONS FOR GRANTING THE WRIT

The standard of review of commercial arbitration awards in proceedings under the Federal Arbitration Act Title 9 must be clarified.

There is considerable interest in the use of arbitration for alternate dispute resolution. In patent cases, a settlement of a patent infringement suit typically involves a royalty bearing license with an arbitration clause for disputes under the license, as we have in the instant case. Patent licenses are typically interstate commerce transactions and hence the arbitration award is subject to review by a Federal Court under Title 9.

Administration of the Federal Arbitration statutes in Title 9 requires some predictability by businessmen as to the remedies available, such as vacation of the award if the arbitrator does not comprehend the patent issues and the award is totally without foundation. When parties agree to arbitration, they are in agreement that a

common sense result by an arbitrator would be an acceptable resolution of a dispute. Although by selecting the arbitration process to settle their dispute, the parties agree to less certainty than that available in courts, they do not agree to an award which results in rewriting or changing the terms in an agreement. Congress enacted Title 9 to make Arbitration awards enforceable in court and vacatable when the award is beyond the power of the arbitrator. Because of conflicts in the law in the various circuits, administration of the law in Title 9 is not predictable.

In this case the District Court and the Third Circuit applied an irrational standard of review. Although it is apparent that neither court apprehended the patent issues, the doctrine of contributory infringement and the facts before the arbitrator, they "rubber stamped" the award as "not irrational", a standard of review found in various labor cases, and confirmed the award.

This Court's recent decision in *United Paperworkers International Union v. Misco*, 484 US 29 108 S.Ct. 364 (1987) may have clarified the test for review of labor awards but the policy reasons for deferring to an award in labor cases stated in *Misco* do not apply to commercial arbitration cases. These reasons were discussed in *Misco*, 108 S.Ct. 364, 370, 371, 372 and various law journals including the recent article after *Misco* in Indiana Law Journal Vol. 64 No. 1, 1988-89, *Protecting the Parties Bargain After Misco; Court Review of*

Labor Arbitration Awards by Douglas E. Ray. *Misco* held that Title 9 did not apply to labor cases. The question remains; do *Misco* and prior Supreme Court labor cases apply to interpretation and application of 9 USC 10(d) to commercial cases even though Title 9 does not apply to labor cases?

The Labor Management Relations Act reflects a decided preference for private settlement of labor disputes without the intervention of government. These reasons for finality in labor arbitration awards do not apply to commercial arbitration awards.

This Court's recent decision in *Lingle v. Norge Div. of Magic Chef, Inc.*, 108 S.Ct. 1877 (1988) made it clear that *Misco* is the test for labor cases but this Court has not decided whether the limited standard of review in *Misco* should be applied to 9 USC 10(d) commercial cases.

However, in a Tenth Circuit commercial arbitration case decided after *Misco*, *Jenkins v. Prudential-Bache Securities*, 847 F.2d 631 (10th Cir. 1988), it was held that this Court's "essence of the contract" analysis in *Enterprise* applied to 9 U.S.C. § 10 cases. *Jenkins*, p.634. *Jenkins* also applied the *Misco* test which requires that an arbitrator must not "ignore the plain language of the contract".

The question is whether *Misco* supersedes the common law of the various circuits which has been derived

from the *Steelworker Trilogy* (1960) and applied to commercial as well as labor cases. The roots of the judicial test for review of labor arbitration awards comes specifically from the Supreme Court decision *United Steelworkers of America v. Enterprise Wheel & Car Corporation*, 363 U.S. 593, 80 S.Ct. 1358 (1960).

All the common law in the various Federal Circuits has been derived from these labor cases and has been applied to commercial arbitration cases because of the absence of any pronouncement by this Court as to whether the labor case trilogy and now *Misco* apply to Title 9 Motions to vacate commercial arbitration awards.

Question 1.

Are this Court's precedents in labor arbitration cases the Federal common law that defines the standard of review for proceedings to vacate commercial arbitration awards under the Federal Arbitration Act?

The Supreme Court decision of *United Steelwkrs. of A. v. Enterprise Wheel and Car Corporation*, 363 U.S. 593, 80 S.Ct. 1358, (1960) established a broad and ambiguous standard of review for federal courts when they review arbitration awards without regard to whether the case is a Title 9 case. The Court established the "draws its essence" test which was to be applied to arbitration awards. This standard has been re-affirmed. This Court

attempted to clarify the standard of review with the following language, *Misco*, p. 371:

> "But as long as the arbitrator is even arguably construing or applying the contract and acting within the scope of his authority, that a court is convinced he committed serious error does not suffice to overturn his decision."

However, the Circuits are still applying their own varying interpretations of the "essence test". *New York Typographical Union v. Printers League*, 878 F.2d 56, (2nd Cir. 1989) page 60; *High Concrete Structures, Inc. v. Local 166*, 879 F.2d 1215 (3d Cir. 1989), page 1218, 1219; *Pack Concrete, Inc. v. Cunningham*, 866 F.2d 283 (9th Cir. 1989), page 285.

This broad, and unclear language in *Enterprise* has forced the Federal Circuits to interpret the meaning of the *Enterprise* case, and create their own tests as to what constitutes an arbitration award subject to vacation. The confusion and unpredictability in the application of these tests is exacerbated by the fact that some courts have noted a distinction between commercial arbitration and labor arbitration cases when they have defined their scope of review. *Enterprise* and *Misco* are in fact labor cases which promote use of the "essence" test.

In addition to the *Enterprise* and *Misco* cases, there are other Supreme Court decisions from which some circuits have adopted different standards of review for arbitration awards. Some courts have interpreted *Wilko*

v. Swan, 346 U.S. 427, 74 S.Ct. 182, (1953) to permit vacation of an arbitration award which evidences a "manifest disregard" of applicable law. See *Stroh Container Co. v. Delphi Industries, Inc.* 783 F.2d 743 (8th Cir. 1986). However, *Wilko* has recently been overruled by *Rodriguez de Quijas v. Shearson/American Exp., Inc.*, 109 S.Ct. 1917 (1989). Some courts have also interpreted *Gunther v. San Diego & Arizona E. Ry.*, 382 U.S. 257, 261, 86 S.Ct. 368, 370, (1965) (a labor case), as allowing vacation of an arbitration award if it is "wholly baseless and completely without reason". See *Loveless v. Eastern Air Lines*, 681 F.2d 1272 (11th Cir. 1982).

The lack of uniformity and predictability within the various Federal Circuits is demonstrated through several decisions in which the courts have made attempts to develop the standard of review required for arbitration cases. The Second Circuit has adopted the test of irrationality. The Court has said that:

> "as long as arbitrators remain within their jurisdiction and do not reach an irrational result, they may 'fashion the law to fit the facts before them' and their award will not be set aside because they erred in the determination or application of the law" *Marcy Lee Mfg. Co. v. Cortley Fabrics Co.*, 354 F.2d 42, p. 43, (2nd Cir. 1965); *I/S Stavborg (O.H. Meling, Manager) v. National Metal Converters, Inc.*, 500 F.2d 424, p. 431 (2nd Cir. 1974).

The Third Circuit has noted the problem that has resulted from the "essence" test set forth in the *Enterprise*

case. The Third Circuit states that *Enterprise* enunciated a basic philosophy that was to apply to all labor arbitration cases. It also stated in *Ludwig Honold Mfg. Co. v. Fletcher*, 405 F.2d 1123, (3d Cir. 1969), at page 1126:

> " ... one problem has emanated from the cases which have followed *Enterprise*: that of formulating a consistent and workable standard to be utilized by the courts in exercising the function of review. Circuit and District Court decisions have not exuded uniformity in translating the "essence" test into a pronouncement of the appropriate extent or limitation of judicial review of the arbitrator's interpretation.
>
> Each case seems to have fashioned its own standard ..."

In this same case, *Ludwig Honold*, the Third Circuit developed its own interpretation of the "essence" test. It states, at page 1128:

> " ... we hold that a labor arbitrator's award does "draw its essence from the collective bargaining agreement" if the interpretation can in any rational way be derived from the agreement, viewed in the light of its language, its context, and any other indicia of the parties' intention; only where there is a manifest disregard of the agreement, totally unsupported by principles of contract construction and the law of the shop, may a reviewing court disturb the award." (footnote omitted)

This test was also followed in *Swift Industries, Inc. v. Botany Industries, Inc.*, 466 F.2d 1125, 1131 (3d Cir. 1972). The court, however, also noted a distinction

between labor and commercial arbitration in terms of the severity of judicial review. In *Swift* it cited the language of a Supreme Court case at page 1131:

> "Since arbitration of labor disputes has quite different functions from arbitration under an ordinary commercial agreement, the hostility evinced by courts toward arbitration of commercial agreements has no place here. For arbitration of labor disputes under collective bargaining agreements is part and parcel of the collection bargaining process itself." *United Steelwkrs. of Am. v. Warrior & Gulf N. Co.*, 363 U.S. 574, 578 80 S.Ct. 1347, 1351 (1960).

But, the Third Circuit then concluded that the courts should exercise even greater restraint when reviewing arbitration awards in the labor context. This appears to conflict with the Supreme Court language which implies that review of labor arbitration cases should not be looked upon with as much hostility as commercial cases.

The Fifth Circuit has recently followed the *Enterprise* and *Misco* language of "draws its essence" in *Delta Queen Steamboat Co. v. Dist. 2 Marine Eng.*, 889 F.2d 599 (5th Cir. 1989).

In *Delta Queen*, the Fifth Circuit did not determine, however, whether the standard of review in labor cases is applicable to commercial cases, but it did conclude that 9 USC 10(d) did apply to labor cases.

The Sixth Circuit has developed several interpretations of the "essence" test which differ from the other

circuits. The Court stated that an award fails to derive its essence from the agreement when:

> "(1) an award conflicts with express terms of the collective bargaining agreement, *see e.g., Grand Rapids Die Casting Corp. v. Local Union No. 159, U.A.W.*, 684 F.2d 413 (6th Cir. 1982); (2) an award imposes additional requirements that are not expressly provided in the agreement, *see e.g. Sears, Roebuck & Co. v. Teamsters Local Union No. 243*, 683 F.2d 154 (6th Cir. 1982), *cert. denied*, 460 U.S. 1023, 103 S.Ct. 1274, 75 L.Ed.2d 495 (1983); (3) an award is without rational support or cannot be rationally derived from the terms of the agreement, *see e.g. Timken Co. v. United Steekworkers of America*, 482 F.2d 1012 (6th Cir. 1973); and (4) an award is based on general considerations of fairness and equity instead of the precise terms of the agreement, *see e.g. Local 342, United Auto Workers v. T.R.W., Inc.*, 402 F.2d 727 (6th Cir. 1968), *cert. denied*, 395 U.S. 910, 89 S.Ct. 1742, 23 L.Ed.2d 223 (1969)."

Cement Divisions, Nat. Gypsum Co. (Huron) v. United Steelworkers of America, AFL-CIO-CLC, Local 135, 793 F.2d 759, page 766, (6th Cir. Mich), 1986).

The Seventh Circuit has applied an assortment of tests including irrationality and "arbitrary or capricious". In *Tootsie Roll Industries, Inc. v. Local Union No. 1, Bakery, Confectionery and Tobacco Workers' Inter. Union*, 832 F.2d 81, (7th Cir. 1987) the court cited these tests and indicated that an arbitrator's award fails to draw its

essence from the agreement "only when the arbitrator must have based his award on some body of thought, or feeling, or policy, or law that is outside the contract ..." p.83.

The Seventh Circuit also implies that several of the tests set forth in other courts, including the Seventh Circuit and the Supreme Court, are not applicable to commercial arbitration awards. In *Mosely, Hallgarten, Estabrook & Weeden, Inc. v. Ellis*, 849 F.2d 264, (7th Cir. 1988), the court comments at page 267, footnote 7 on the applicability of the labor law standard of review in commercial cases:

> "The Eighth Circuit has pointed out that: "Some Courts, however, have suggested that an award may be set aside if it is in 'manifest disregard of the law', ... is completely irrational in that it fails to draw its 'essence' from the agreement, ... or contravenes a deeply rooted public policy .... These exceptions to the facial restraints on judicial review set forth in the Act are generally derived from language in *United Steelworkers of America v. Enterprise Wheel & Car Corp.*, 363 U.S. 593, 80 S.Ct. 1358, 4 L.Ed.2d 1424 (1960), establishing the scope of judicial review in labor arbitration cases, and from dictum in *Wilko v. Swan*, 346 U.S. 427, 436, 74 S.Ct. 182, 187, 98 L.Ed. 168 (1953), recognizing 'manifest disregard' as a possible ground for vacating an award." *Stroh Container Co. v. Delphi Industries, Inc.*, 783 F.2d at 749-50 (citations and footnotes omitted). This Circuit has yet to adopt these exceptions to sec-

> tions 10 and 11 of the Act when reviewing commercial arbitration awards. We refrain to do so today."

The Ninth Circuit also has its own interpretation of the "essence" test. This circuit has consistently stated that "we enforce an arbitration award if it represents a 'plausible interpretation of the contract in the context of the parties' conduct.'" *Holly Sugar Corp. v. Distillery, Rectifying, Wine and Allied Workers Inter. Union, AFL-CIO*, 412 F.2d 899, (9th Cir. Cal., 1969), page 903.

The Tenth Circuit is similar to the Fifth Circuit in that it has recently followed the "draws its essence" language of *Enterprise* and *Misco* and applied it to a labor case. See *United Food & Com. Workers Local 7R v. Safeway*, 889 F.2d 940 (10th Cir. 1989). But see *Jenkins v. Prudential-Bache Securities*, 847 F.2d 631 (10th Cir. 1988) where the Court applied the standard of review for labor cases to a commercial case.

Overall, it can be said that some circuits have applied the standards of review in labor cases to commercial cases. Other circuits have said that these various tests do not apply to commercial cases. While some courts have applied 9 USC 10(d) to labor cases, and in *Misco* this court stated that courts could look to this statute when deciding labor cases, there has been no clear declaration by this Court as to whether or not the reverse is true. That is, whether or not the standards of review applied in labor cases can also be applied to

commercial cases.

In cases where the arbitrator rewrote the plain language of the agreement, some Courts have ignored the tests which have evolved from the *Enterprise* case and have applied the literal language of 9 U.S.C. § 10(d) to hold that the arbitrator exceeded his power.

This Court stated, in *Misco* at page 371:

> "The arbitrator may not ignore the plain language of the contract; but the parties having authorized the arbitrator to give meaning to the language of the agreement, a court should not reject an award on the ground that the arbitrator misread the contract. *Enterprise Wheel, supra*, 363 U.S., at 599, 80 S.Ct. at, 1362."

If the "plain meaning" test of *Misco* had been applied by the courts below, the result would have been different in the instant case.

In *Detroit Coil v. Inter. Ass'n of M. & A Workers, etc.*, 594 F.2d 575 (6th Cir. 1979) the Court vacated the award under 9 USC §10(d). The Court stated that a "word" in the agreement which was in dispute had to be given the ordinary meaning and there was no evidence that the parties intended to deviate from that meaning. The Court held the arbitrator had exceeded his authority. The Court stated at page 579:

> "The arbitrator is confined to the interpretation and application of the collective bargaining agreement, and although he may construe ambiguous contract language, he is without authority to disregard or modify plain and unambiguous pro-

visions."

Another case in which an award was vacated because the arbitrator exceeded his power includes *Monogahela Power Co. v. Local No. 2332, Inter. Bro.*, 566 F.2d 1196 (4th Cir. 1976) where the Court stated in referring to the arbitrator, at page 1199:

> "His function is confined to the interpretation and application of the collective bargaining agreement under which he acts and, while he may give his own construction to ambiguous language (footnote omitted), he is without any authority to disregard or modify plain and unambiguous provisions (footnote omitted). This is a well-established principle of the law; it is also, specifically so provided in the agreement in this case (footnote omitted."

Other Courts have followed the *Misco* case and vacated awards where the arbitrator rewrote the plain unambiguous terms of the agreement.

In the case of *Inter-City Gas Corp. v. Boise Cascade Corp.*, 845 F.2d 184 (8th Cir. 1988), the Court reversed the District Court and vacated the arbitrator's award under 9 USC §10(d) because the arbitrator ignored the plain language of the contract. The Court held that the arbitrator exceeded his authority under the contract. The Court applied pre-*Misco* law and *Misco*, while stating at page 187:

> "As the Supreme Court has stated in the labor context, '[t]he arbitrator may not ignore the plain language of the contract.' *United Paperworkers*

> *Int'l Union*, 108 S.Ct. at 371. More specifically, if the arbitrator interprets unambiguous language in any way different from its plain meaning, [the arbitrator] amends or alters the agreement and acts without authority.' *District No. 72 & Local Lodge 1127, Int'l Assoc. of Mach. & Aerospace Workers v. Teter Tool & Die, Inc.*, 630 F.Supp. 732, 736 (N.D. Ind. 1986) (labor arbitration). Thus, we will review the arbitration award to ensure it is grounded on the parties contract."

It is apparent from the foregoing that this court must establish a workable standard of review for commercial cases. In the instant case the Third Circuit ignored *Misco*, although it was cited to the Third Circuit by Petitioners, and applied various pre-*Misco* tests espoused in labor cases, including the difficult to apply standard of irrationality. The Third Circuit decision in this case came after the Third Circuit had applied *Misco* to one labor case *U.S. Postal Service v. National Association of Letter Carriers*, 839 F.2d 146 (3d Cir. 1988), but then proceeded to ignore it in other cases. See *Mutual Fire, Marine & Inland v. Norad Reinsurance*, 868 F.2d 52, (3d Cir. 1989) (a commercial arbitration case); *Roberts & Schaefer Co. v. Local 1846, U.M.W.*, 812 F.2d 883 (3d Cir. 1987); *High Concrete Structures, Inc. v. Local 166*, 879 F.2d 1215 (3d Cir. 1989).

In view of *Misco* it is not clear what body of Federal Common law applies to the standard of review for an award in a commercial arbitration case. What is the

status of the judicially created exceptions to 9 U.S.C. § 10(d) which expand the power of a Court to vacate an arbitration award? Should any of this Court's labor precedents, including *Misco*, apply to commercial awards? Perhaps literal application of the statutory language "exceeded his power" is the standard of review.

Question 2.

Does this Court's decision in *Torres v. Oakland Scavenger Co.*, 108 S.Ct. 2405 (1988) set forth a sixty (60) day rule following judgment which removes the District Court's jurisdiction to act on a motion for extension of time to appeal after 60 days from the entry of judgment?

The recent *Torres* case has created a conflict in the Circuits. The Third Circuit in the instant case has interpreted *Torres* as an absolute jurisdictional bar to any action by the District Court after 60 days from the action for an extension of time to appeal.

However, literal interpretation of Rule 4 (a)(3) and (a)(5) allows any "other party" to have up to 74 days in which to file a notice of appeal, if excusable neglect or good cause is shown under 4(a)(5). In this case, Gaffney was an "other party" under Rule 4(a)(3) who filed his motion to extend the time to appeal less than 74 days from the entry of judgment.

Pursuant to Fed.R.App.P. 4(a)(3) if a timely Notice

of Appeal is filed by a party, any other party may file a Notice of Appeal within fourteen (14) days after the date on which the first Notice of Appeal was filed or within the time prescribed by Rule 4(a), whichever period last expires. The fourteen day rule contained in Fed.R.App.P. 4(a)(3) has been said to apply to any other party in a lawsuit and is not restricted to cross-appeals or appeals by parties on the other side of a case or issue. *In re Crystal Palace Gambling Hall, Inc.*, 817 F.2d 1361, 1364 (9th Cir. 1987). In this case, final judgment was entered in the District Court on April 18, 1989. In accordance with Rule 4(a)(1), Orthokinetics filed a Notice of Appeal within 30 days after the date of entry of the judgment on May 16, 1989, which was 28 days after the final judgment. Consequently, Gaffney had a right to file an appeal until May 30, 1989, fourteen days after the Notice of Appeal was filed on behalf of Orthokinetics.

Under Fed.R.App.P. 4(a)(5), a party may obtain an extension of time to appeal by filing a motion with the District Court upon a showing of excusable neglect or good cause. The motion to extend must be filed not later than thirty (30) days after the expiration of the time prescribed by Rule 4(a).

Since Gaffney could have filed his "Notice of Appeal" on May 30, 1989, which is fourteen days after the first Notice of Appeal and 42 days after the entry of the final judgment, by invoking Rule 4(a)(5), Gaffney could have

had 30 extra days (for a total of 72) in which to file his "motion to extend" after the entry of judgment. Gaffney, in fact, filed his motion on June 29, 1989 which was the 72nd day after entry of the final judgment and thus was timely under the literal language of the rule. Thus, the question presented is whether or not the District Court retains jurisdiction over an "other party" under 4(a)(3), who files a timely motion to extend after the first Notice of Appeal has been filed, to act on a motion to extend the time to appeal up to 74 days after judgment was entered? The District Court granted the motion to extend the time to appeal.

In the instant case, the Third Circuit held that the District Court did not have jurisdiction after 60 days. This ruling conflicts with the recent Second Circuit ruling in *Melton v. Frank*, ____ F.2d ____ (2nd Cir. 1989) WL 152982 (App. 36), a decision handed down December 14, 1989 over a month after the decision in this case by the Third Circuit.

In *Melton v. Frank* the Second Circuit held that a Motion for Extension of Time for a cross appeal would be timely if filed within 104 days (the 60 day Notice of Appeal rule applied in a government case) because of the automatic fourteen day extension following a timely filed first Notice of Appeal to an "other party" under Rule 4(a)(3) and the 30 days afforded under Rule 4(a)(5).

CONCLUSION

For the reasons stated, it is urged that this petition for a Writ of Certiorari be granted to clarify the confusion and unpredictability which prevails within the Circuits with regards to the application of the appropriate standard of review to commercial arbitration awards. It is also urged that *Torres* has not re-written Fed.R.App.P. 4 to remove District Court jurisdiction for a timely filed motion by any "other party" for an extension of time to appeal within 74 days of entry of judgment.

DATED this 26 day of Jan, 1990.

Respectfully submitted,

By Henry C. Fuller

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Counsel for Petitioners Orthokinetics, Inc. and Edward J. Gaffney

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UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 89-5417

ORTHOKINETICS, INC.
GAFFNEY, Edward J.,

Appellants

vs.

PENOX TECHNOLOGIES, INC.
and
HOHOL, LARRY

Appeal from the United States District Court
for the Middle District of Pennsylvania (Scranton)
(D.C. Civil No. 89-0097)
District Judge: Honorable William J. Nealon

Submitted Under Third Circuit Rule 12(6)
October 31, 1989
Before: GIBBONS, Chief Judge, and MANSMANN,
Circuit Judges,
and GERRY, Chief Judge.*

(Filed November 3, 1989)

MEMORANDUM OPINION OF THE COURT

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* Honorable John F. Gerry, Chief Judge of the United States District Court for the District of New Jersey, sitting by designation.

MANSMANN, Circuit Judge.

The federal policy favoring arbitration is the polestar of this appeal involving a challenge to an arbitrator's interpretation of a royalty agreement and a most favored licensee clause. The district court granted Penox's motion to affirm the arbitrator's award since the award was not irrational nor did it fail to draw its essence from the agreement at issue. For the following reasons, we will affirm the order of the district court.

I.

As part of a settlement of an alleged patent infringement suit,[1] appellants, Orthokinetics, Inc., a Wisconsin corporation and Edward Gaffney, a citizen of Wisconsin, and appellees, Penox Technologies, Inc. ("Old Penox"), a Pennsylvania corporation, along with Larry Hohol, Edward Stanks and Joel Guerin, each citizens of

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[1]/ See, *Orthokinetics, Inc. v. Penox Technologies, Inc.*, No. 85-1697, filed Nov. 22, 1985 in the M.D.Pa.

Pennsylvania, entered into a license agreement.[2] The licensing agreement permitted Old Penox to continue to manufacture recliner lift chairs in exchange for payment of royalties. The suit was dismissed with prejudice by a consent final judgment, however, the license agreement was not incorporated into the final order.

A most favored licensee ("mfl") provision in the license agreement granted Old Penox the right to adopt more favorable provisions from later license agreements entered into by Orthokinetics. On May 6, 1987, Orthokinetics entered into a license agreement with Super Sagless ("SS"). By letter dated January 27, 1988, Old Penox adopted the SS terms.[3]

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[2]/ For ease of narrative, the appellants are referred to collectively as Orthokinetics, and appellees are referred to as Old Penox or Penox.

[3]/ While the relevant language of both license agreements was identical, Old Penox argued that the practical effect of the SS terms would be more favorable to it.

> SS shall pay OKI an earned royalty on each and every reclining lift chair and/or mechanisms therefor. . . actually sold by SS in the United States . . ., which royalty shall be equal to five

A dispute ensued as to the interpretation and effect of the SS terms on Old Penox. Pursuant to the arbitration clause in the Old Penox license agreement, Old Penox made a demand for arbitration on March 23, 1988. The arbitrator entered an award in favor of Old Penox on November 7, 1988, but did not issue an opinion in support of the award.

On January 19, 1989, Orthokinetics filed a petition to vacate the arbitrator's award with the District Court for the Middle District of Pennsylvania.[4] On February 7,

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percent (5%) of SS's net selling price for such chair or $15.00 per chair, whichever is greater.

(Emphasis added.)

Penox shall pay Orthokinetics a royalty on each and every reclining lift chair . . . actually sold by Penox in the United States . . ., which royalty shall be equal to five percent (5%) of Penox's net selling price for such chair or $15.00 per chair, whichever is greater.

[4]/ According to the rules of the American Arbitration Association, which rules the parties agreed would govern any arbitration proceedings, and the Federal Arbitration Act, 9 U.S.C.A. § 9 (West 1970), judgment may be entered in any United States court in the district within which the award was made.

1989, Old Penox[5] responded in opposition to the motion to vacate and filed a cross-motion to confirm the arbitrator's award. By order dated April 18, 1989, the district court denied Orthokinetics' motion to vacate and granted Old Penox's cross-motion to confirm the award.

Orthokinetics filed a notice of appeal on May 16, 1989. On June 29, 1989, Orthokinetics filed a motion for enlargement of time to file the notice of appeal and conform the caption to include Gaffney as an appellant. The district court granted the motion without opinion on July 5, 1989. On July 14, 1989, Old Penox filed a motion for reconsideration of the district court's order granting Orthokinetics' motion for enlargement of time. The district court has not yet acted on the motion for reconsideration.

"In reviewing the district court's denial of appellants' motion to vacate the arbitration award, this court will

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[5]/ Appellees also filed a motion for substitution of parties which was granted by the district court on February 9, 1989. New Penox, a Missouri corporation, and Larry Hohol, a citizen of Pennsylvania, were substituted in this action.

stand in the shoes of the district court and determine whether appellants were entitled to vacate the arbitration award pursuant to 9 U.S.C. § 10(d)." Mutual Fire, Marine & Inland v. Norad Reinsurance, 868 F.2d 52, 56 (3d Cir. 1989), citing, Moseley, Hallgarten, Easterbrook & Weeden v. Ellis, 849 F.2d 264, 267 (7th Cir. 1988). "It is, however, well established that the 'court's function in confirming or vacating a commercial [arbitration] award is severely limited.'" Id., quoting Swift Indus. v. Botany Indus., 466 F.2d 1125, 1130 (3d Cir. 1972).

II.

We must first determine whether the district court was divested of jurisdiction to grant Orthokinetics' motion for enlargement of time to file the notice of appeal and conform the caption to include Gaffney as an appellant upon the timely filing of the notice of appeal with this court. Orthokinetics filed a notice of appeal with us within the time limits prescribed by Rule 4 of the Federal Rules of Appellate Procedure. More than sixty days after the district court entered its final order, Orthokinetics filed a motion for enlargement of time to file a notice of

appeal which added Gaffney as an appellant. The district court granted this motion and the caption of this appeal was changed to include Gaffney. Penox then filed a motion for reconsideration of the district court's order granting Orthokinetics' motion, which is still pending.

The failure of Gaffney to timely file a notice of appeal presents a jurisdictional bar to his appeal. As the Supreme Court explained in Torres v. Oakland Scavenger Co., 108 S.Ct. 2405 (1988):

> The failure to name a party in a notice of appeal is more than excusable "informality;" it constitutes a failure of that part to appeal. . . . The mandatory nature of the time limits contained in Rule 4 would be vitiated if courts of appeals were permitted to exercise jurisdiction over parties not named in the notice of appeal. Permitting courts to exercise jurisdiction over unnamed parties after the time for filing a notice of appeal has passed is equivalent to permitting courts to extend the time for filing a notice of appeal.

Torres, 108 S. Ct. at 2407-08.

We conclude that the failure to name Gaffney in the notice of appeal results in failure of Gaffney's appeal. Consequently, the decision of the court below is final and unappealable as to Gaffney.

Nor could the district court suspend the requirement

of Rule 4 by enlarging the prescribed time limits by granting Orthokinetics' motion for enlargement of time. This is barred not only by Rule 4 itself, but also by the judge-made rule that upon the timely filing of a notice of appeal, jurisdiction over a case is immediately transferred from the district court to the court of appeals. Venen v. Sweet, 758 F.2d 117, 120-21 (3d Cir. 1985).

Once an appeal is taken from an appealable order, here the order dated April 18, 1989, the district court retains only limited power to act. Id. at 122. An untimely motion for enlargement of time does not present an instance in which the district court retains power to act. Therefore, the district court lacked jurisdiction to grant appellants' motion for enlargement of time.

Penox indicates that there is presently pending a motion for reconsideration of the district court's order granting Orthokinetics' motion for enlargement of time upon which the district court has not acted. Since we, and not the district court, possess jurisdiction over this case, the failure of the district court to act upon the motion does not affect our jurisdiction to hear this appeal.

We are aware of our obligation to satisfy ourselves that we have not only appellate jurisdiction, but also subject-matter jurisdiction. The underlying dispute in this case is an alleged patent infringement claim. The parties entered into a license agreement, which was not incorporated into the final order, settling this claim. It is the licensing agreement which Orthokinetics contends the arbitrator misinterpreted resulting in the appeal to the district court.

Under 28 U.S.C. § 1295(a)(1), the Court of Appeals for the Federal Circuit is granted exclusive jurisdiction over appeals from final decisions of the district courts, if the jurisdiction of that court was based, in whole or in part, on 28 U.S.C. § 1338. (Section 1338 grants the district courts original jurisdiction over any civil action arising under the federal patent laws.) The Federal Circuit would, thus, have jurisdiction over any case "arising under" the federal patent laws.

In determining whether a case arises under § 1338, the court must look to the well-pleaded complaint. Christianson v. Colt Industries Operating Corp., 108 S.Ct. 2166, 2173 (1988). Section 1338 jurisdiction "extend[s]

only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." Id.

While the underlying lawsuit may have been based on § 1338 and the federal patent laws, the claim which is the focus of our inquiry is the claim presented to the district court, i.e., Orthokinetics' motion to vacate the arbitrator's award. Under the test articulated in Christianson, this case does not arise under the federal patent laws. Rather, jurisdiction in the district court was based on diversity and 9 U.S.C. § 9. Clearly, we have subject-matter jurisdiction over this appeal.

For their final argument, Orthokinetics contends that the district court erred in denying the motion to vacate the arbitrator's award. They argue that the arbitrator exceeded his powers by rewriting the license agreement and acted in manifest disregard of the law.

The scope of review of a commercial arbitration decision is narrow in the extreme. Amalgamated Meat

Cut., Etc. v. Cross Bros. M.P., Inc., 518 F.2d 1113, 1121 (3d Cir. 1975). Even though we may have serious doubts about the correctness of the award, we may not set aside the arbitrator's award if the interpretation is not irrational. Roberts & Schaefer Co. v. Local 1846, U.M.W., 812 F.2d 883, 886 (3d Cir. 1987). The parties bargained for the decision of the arbitrator, and they cannot avoid the award simply because the arbitrator may have reached an incorrect result. Id. at 885. In W.R. Grace & Co. v Local Union 759, 461 U.S. 757, 764 (1983), the Supreme Court admonished the federal courts to confirm an arbitrator's award even if it believes its interpretation would be a better one.

Although our review is made more difficult since the arbitrator did not write an opinion to explain his interpretation, it is obviously not for us to rewrite the contract, but rather, to determine whether the contract will support the arbitrator's interpretation. The arbitrator could have determined from the testimony of the parties that the most favored licensee agreement would have little meaning if the term is used to calculate the product was different. Here, one licensor had to pay the royalty

on the whole product, while another only paid a royalty on part. Thus, the arbitrator was giving meaning to the intent behind the clause, rather than an illusory written interpretation. The district court confirmed the arbitrator's award because Orthokinetics had failed to show that the award was fundamentally irrational or failed to draw its essence from the parties' agreement. We also do not find that the arbitrator's award was irrational or failed to draw its essence from the royalty agreement at issue.

III.

For the above stated reasons, we will affirm the order of the district court.

TO THE CLERK:

Please file the foregoing opinion.

ENTER:

/s/ CAROL MANSMANN
CIRCUIT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

ORTHOKINETICS, INC. and EDWARD J. GAFFNEY,	)
Petitioners/ Cross Respondents,	)
	)**Civil Action No. 89-0097**
v.	)
PENOX TECHNOLOGIES, INC. and LARRY HOHOL,	)
Respondent/ Cross Petitioners.	)

MEMORANDUM

Currently before the court are motions to vacate an arbitration award, filed by petitioner Orthokinetics, Inc. and Edward J. Gaffney, and to confirm the award, filed by respondents Penox Technologies, Inc. and Larry Hohol. For the reasons that follow, petitioners' motion will be denied and respondents' motion will be granted.

BACKGROUND

As part of a settlement in a patent infringement case

filed by petitioner Orthokinetics, see Orthokinetics, Inc. v. Penox Technologies, Inc., No. 85-1697 (M.D. Pa. filed Nov. 22, 1985) (Nealon, C.J.), petitioner and respondents entered into a patent license agreement. The license agreement granted to respondents the right to continue to manufacture recliner lift chairs, which were the subject of the patent infringement suit, in exchange for payment of royalties in accordance with the terms of the patent license. One such clause was a most favored licensee clause that allowed respondents to adopt the terms of a "more favorable" license agreement later entered into by petitioner and a third party. See document 2 of record, at pp. 1-2; document 8 of record, at pp. 2-3[1]

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[1]/ The most favored license clause reads, in pertinent part, as follows:

> 12. In the event ORTHOKINETICS or GAFFNEY hereafter grants a license under Letters Patent No. 4,007,960 to any other party on terms more favorable than those provided herein, ORTHOKINETICS or GAFFNEY, whichever has granted the license, shall promptly notify PENOX of the granting of such a license and shall provide PENOX with a copy thereof, and PENOX shall have the option, at any time within two (2) months after receiving a copy of said license, to avail itself of such more

The royalty provision in the license agreement between petitioners and respondents provides as follows:

> In consideration of the license granted in paragraph 3 hereof and subject to the provisions of paragraph 5 hereof, during the life of this Agreement, PENOX shall pay ORTHOKINETICS a royalty of each and every reclining lift chair within the scope of any claim of said Letters Patent No. 4,007,906, actually sold by PENOX in the United States commencing May 1, 1986 and for which payment has been received by PENOX . . ., which royalty shall be equal to five per cent (5%) of PENOX's net selling price for such chair or $15.00 per chair, whichever is greater . . .

See document 3 of record, Exhibit 5, at ¶ 4. Petitioners subsequently entered into a license agreement with Super Sagless Corporation (hereinafter Sagless) on May 6, 1987. See id., Exhibit 7. The royalty provision in that agreement reads as follows:

> In consideration of the license granted in paragraph 3 hereof and subject to the provisions of paragraph 6 hereof, during the life of this Agreement, SS [SUPER SAGLESS] shall pay [ORTHOKINETICS, INC.] an earned royalty on

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favorable terms.
See document 3 of record, Exhibit 5, at par. 12.

> each and every reclining lift chair and/or mechanisms therefor within the scope of any claim of said Letters Patent No. 4,007,960, actually sold by SS in the United States commencing the 1st day of November, 1986 and for which the net sales price has been received by SS. . ., which royalty shall be equal to five per cent (5%) of SS's net selling price for such chair or $15.00 per chair, whichever is greater. . . .

See id. at ¶ 4 (emphasis added).

By letter dated January 27, 1988, counsel for respondents notified petitioners that it would adopt the Sagless agreement pursuant to the most favored licensee clause. See id., Exhibit 17. Counsel explained this decision in the following manner:

> In Penox's view, the SS agreement is more favorable in fact than Penox's agreement. Although the literal wording of paragraph 4 of the SS agreement provides for a royalty of 5% or $15.00 per chair, whichever is greater, as does paragraph 4 of the Penox agreement, the practical effect of the SS agreement is to permit SS to pay a royalty based upon the price of the lift-recline mechanism only, with Orthokinetics considering all of SS's customers to be licensed to make chairs including the mechanism without paying a royalty based on the value added between the price of the mechanism and the price of the completed chair. Penox believes that it is entitled to assume the SS agreement

and to pay a royalty only on the cost of the lift-recline mechanisms it purchases for incorporation into its chairs. Penox recognizes that assumption of the SS agreement would require it to pay the minimum royalties set forth in paragraph 6 of the SS agreement.

At the time OKI entered into the SS agreement there is no doubt that OKI knew that SS makes mechanisms and not chairs. OKI doubtless knew that SS supplies about half of the market for mechanisms in this country. OKI did not and could not have expected SS to pay more than the minimum of $15.00 royalty per mechanism, because OKI well knows that mechanisms sell for about $100.00. Thus, SS need pass on to its customers only a $15.00 per mechanism royalty expense, while Penox must absorb far more per chair.

* * *

Therefore, Penox considers that it has the right to assume the terms of the SS agreement, as applied and understood by OKI, and to calculate royalties due from November 1, 1986, the date upon which OKI and SS agreed that SS's royalty obligation would begin to run. As a result, Penox has considerably overpaid OKI under its agreement and intends to withhold current royalty payments until the amount it would have owed under the terms of the SS agreement equals the amounts already paid. AFter that time, Penox would continue to pay royalties on the price to it of the lift-recline mechanism under the terms set forth in the SS agreement.

See id. at pp. 1-3.

In accordance with this letter, respondents withheld from current royalty payments the amount of the alleged overpayment. Based on respondents' actions, petitioners gave sixty (60) days notice of termination of the license agreement. See document 3 of record, Exhibit 22. On March 23, 1988, respondents filed a demand for arbitration of the dispute. See id., Exhibit 1; see also id., Exhibit 5, at ¶ 21 (arbitration clause in license agreement).

Respondents then paid the royalty deficiency to petitioners under protest pending the outcome of the arbitration. See id., Exhibit 23.

On November 7, 1988, the arbitrator made the following award:

> 1. ORTHOKINETICS, INC. and EDWARD J. GAFFNEY, hereinafter referred to as RESPONDENTS, shall pay to PENOX TECHNOLOGIES, INC., hereinafter referred to as CLAIMANT, the sum of THIRTY-TWO THOUSAND ONE HUNDRED TWENTY-THREE DOLLARS AND THIRTEEN CENTS ($32,123.13), plus interest at the rate of 6% per cent per annum from January 28, 1988 to date of payment.

2. Under the "Most Favored Licensee" provision of the Agreement between the parties, CLAIMANT is entitled to pay 5% royalty on the net selling price of the Mechanism Base or FIFTEEN DOLLARS ($15.00), whichever is greater from January 28, 1988.

See id., Exhibit 27. No opinion in support of the award was issued by the arbitrator.

Petitioners submitted their motion to vacate the arbitration award on January 19, 1989. See documents 1-3 of record. On February 7, 1989, respondents noted their opposition to petitioners' motion and filed a cross motion to confirm the arbitration award. See documents 7-10 of record. Petitioners filed their reply on February 21, 1989. See documents 13-15 of record. Respondents' reply time having elapsed on March 10, 1989 without further submission to the court, this matter is now ripe for disposition.

DISCUSSION

It is well settled that the scope of review of commercial arbitration decisions is "narrow in the extreme." Amalgamated Meat Cutters v. Cross Brothers

Meat Packers, Inc., 518 F. 2d 1113, 1121 (3d Cir. 1975). A federal court may not overrule an arbitrator's decision even if the court believes that its own interpretation would be a better one. Kane Gas Light & Heating Co. v. International Brotherhood of Firemen and Oilers, Local 112, 687 F.2d 673 (3d Cir. 1982), cert. denied, 460 U.S. 1011, 103 S.Ct. 1251, 75 L.Ed.2d 480 (1983); Jovijo, Inc. v. United Food and Commercial Workers Union, Local 23, 641 F. Supp. 690, 691 (W.D. Pa. 1986). Arbitrators are "the final judges of both law and fact and their award will not be disturbed for the mistake of either." Ludwig Honold Mfg. Co. v. Fletcher, 405 F.2d 1123, 1128 (3d Cir. 1969); see also Reynolds Securities, Inc. v. Macquown, 459 F. Supp. 943, 944 (W.D. Pa. 1978) ("mere ambiguity or difference of interpretation is insufficient grounds for upsetting the decision rendered by the arbitrators in this case"). The appropriate focus in on the arbitrator and the contract, not on the facts underlying the dispute. Local Union 1160 v. Busy Beaver Building Centers, Inc., 616 F. Supp. 812, 814 (W.D. Pa. 1985) (citing Kane Gas Light & Heating Co., supra). "It scarcely needs repeating that it was the arbitrator's

construction which the parties bargained for and, absent abuse as outlined above, the result is binding on the parties even if the arbitrator's decision appears to be 'a dubious one,'. . . or he 'may have reached an incorrect result.'" Wilkes-Barre Publishing Co. v. Newspaper Guild of Wilkes-Barre, Local 120, No. 79-1181, slip op. at 7 (M.D. Pa. Feb. 25, 1985) (Nealon, C.J.) (quoting Teamsters Union Local No. 115 v. DeSoto, Inc., 725 F.2d 931, 935 (3d Cir. 1984); Kane Gas Light & Heating Co., supra). Thus, as summarized by the Third Circuit Court of Appeals,

> [t]he interpretation of labor arbitrators must not be disturbed so long as they are not in "manifest disregard" of the law, and that [raising the issue] "whether the arbitrators misconstrued a contract" does not open the award to judicial review.
>
> Accordingly, we hold that a labor arbitrator's award does "draw its essence from the collective bargaining agreement" if the interpretation can in any rational way be derived from the agreement, viewed in the light of its language, its context, and any other indicia of the parties' intention . . .

Ludwig Honold Mfg. Co. v. Fletcher, 405 F.2d at 1128.

One permissible ground for vacating an arbitration award exists "[w]here the arbitrators exceeded their

powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made." 9 U.S.C. § 10(d). Petitioners here argue that the arbitrator exceeded his authority in that "the agreement itself did not provide for arbitration of the amount of the royalty or changing the royalty base or a change of the identity of the subject matter to which the 5% royalty would apply." See document 2 of record, at p.10. The court must disagree with petitioners.

The arbitration clause found in the Orthokinetics-Penox license agreement provides as follows:

> The parties hereto agree that if any dispute should arise as to the terms and conditions of this Agreement which cannot be resolved by the parties, that said dispute shall be resolved by submitting said dispute to the American Arbitration Association pursuant to its rules and regulations. The parties agree to be bound by the determination of the arbitrator, with each party to pay one-half (1/2) of the expenses incurred in the determination.

See document 3 of record, Exhibit 5, at ¶ 21. When an agreement contains such a broad arbitration clause, in the absence of any express provision excluding a particular grievance from arbitration, "only the most forceful

evidence of a purpose to exclude the claim from arbitration can prevail. . . ." National Railroad Passenger Corp. v. Chesapeake and Ohio Railway Co., 551 F.2d 136, 140 (7th Cir. 1977) (quoting United Steelworkers of America v. Warrior & Gulf Navigation Co., 363 U.S. 574, 584-585, 80 S.Ct. 1347, 1354, 4 L.Ed.2d 1409 (1960)); see also Beck v. Reliance Steel Products Co., 860 F.2d 576, 579 (3d Cir. 1988) (matter is presumed arbitrable unless it can be said "with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute"); Coleman v. National Movie-Dine, Inc., 449 F. Supp. 945, 948 (E.D. Pa. 1978). The arbitration clause here clearly covers the dispute over the proper construction of the Sagless royalty provision. Cf. Barrowclough v. Kidder, Peabody & Co., Inc., 752 F.2d 923, 938 (3d Cir. 1985) (arbitration provision covering "all disputes" means what the language says, i.e., that all disputes are subject to arbitration). At most, petitioners can argue that the arbitrator misinterpreted the royalty provision, but "[t]he courts are in agreement that arbitrators do not exceed their powers by misconstruing a contract." National Railroad Passenger Co. v.

Chesapeake and Ohio Railway Co., 551 F.2d at 142 (citing Bernhardt v. Polygraphic Co. of America, 350 U.S. 198, 203 n.4, 76 S.Ct. 273, 276 n.4, 100 L.Ed. 199 (1956)); see also Wilko v. Swan, 346 U.S. 427, 435-437, 74 S.Ct. 182, 186-187, 98 L.Ed. 168 (1953); United Steelworkers of America, AFL-CIO v. American Smelting and Refining Co., 648 F.2d 863, 868-869 (3d Cir. 1981), cert. denied, 454 U.S. 1031, 102 S.Ct. 567, 70 L.Ed.2d 474 (1981); Benjamin F. Shaw Co. v. Cincinnati Gas & Electric, 633 F. Supp. 841, 843-844 (S.D. Ohio 1986) ("[s]omething beyond mere error in interpretation or application of the law is required before there may be a vacation of an award" as in excess of the arbitrator's powers); Amoco Overseas Oil Co. v. Astir Navigation Co., Ltd., 490 F. Supp. 32, 37 (S.D.N.Y. 1979).

Petitioners also argue that the arbitrator's award "is in manifest disregard of the law of contracts which requires the consent of both parties to an amendment to a contract." See document 2 of record, at p. 12. "Manifest disregard of the law" is a judicially-created ground for vacating an arbitration award that was introduced by the Supreme Court in 1953. See Wilko v. Swan, 346 U.S. at

436-437, 74 S.Ct. at 187-188, 98 L.Ed. 168. "In order to have an award vacated on ground of manifest disregard of law, the complaining party must establish that the arbitrator understood and correctly stated the law but proceeded to ignore it." Reynolds Securities, Inc. v. Macquown, 459 F. Supp. at 945; see also Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bobker, 808 F.2d 930, 933 (2d Cir. 1986) (manifest error of law "clearly means more than error or misunderstanding with respect to the law"); Stroh Container Co. v. Delphi Industries, Inc., 783 F.2d 743, 750-751 (8th Cir. 1986), cert. denied, 476 U.S. 1141, 106 S.Ct. 2249, 90 L.Ed.2d 695 (1986) (where arbitrator's decision does not clearly delineate the law applied or the reasoning and analysis used, it cannot be said that it clearly appears that the arbitrators identified applicable law and proceeded to reach a contrary position in spite of it). The court finds petitioners' argument to be without merit.

Petitioners nowhere allege that the arbitrator undertook to correctly state the law and then proceeded to disregard his own pronouncement. Indeed, given that the arbitrator did not submit any reasoning or analysis

with his award, the most that can be said is that the arbitrator misunderstood or misapplied the applicable law. As stated above, such conduct does not rise to the level of manifest disregard of the law.

Likewise, petitioners have not established that the award "was fundamentally irrational or failed to draw its essence from the parties' agreement." Stroh Container Co. v. Delphi Industries, Inc., 783 F.2d at 750. Again, the court does not have to benefit of the arbitrator's analysis of the parties dispute. Nevertheless, the discussion contained in respondents' memorandum in opposition to the motion to vacate and in support of the motion to confirm the arbitration award clearly demonstrates that a rational argument can be made in favor of the arbitrator's award.

See generally document 8 of record, at pp. 13-20.[2] Thus,

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[2]In part, respondents argue as follows:

> Essentially, the arbitrator was confronted with a case where both PENOX and SS were paying a royalty of five percent (5%) or Fifteen Dollars ($15.00), whichever was greater. However, the five percent (5%) figure was being inappropriately and inconsistently applied to different items. For

petitioners' motion to vacate the arbitrator's award will be denied.

PENOX it applied to the whole chair and for SS it applied to a part of the chair. Obviously the party who paid five percent (5%) of the component part was being given a more favorable term than the party who paid five percent (5%) of the whole. While the royalty rate itself may have been the same (i.e., five percent (5%) or Fifteen Dollars ($15.00), whichever was greater), the item used to calculate the product (base vs. whole chair) was different. PENOX persuaded the arbitrator that the 'most favored licensee" terms, agreed to between PENOX, ORTHO and GAFFNEY, mandated that the item used to calculate the royalty be the same, otherwise the most favored licensee clause would be illusory. If a contrary conclusion were reached, patent licensors could circumvent the substance of "most favored licensee" clauses granted by them merely by affording certain licensees beneficial treatment without putting that fact in writing.

See document 8 of record, at p. 15; cf. document 3 of record, Exhibit 27, at par. 2 (arbitration award states as follows: "Under the 'Most Favored Licensee' provision of the Agreement between the parties, CLAIMANT is entitled to pay 5% royalty on the net selling price of the Mechanism Base or FIFTEEN DOLLARS ($15.00), whichever is greater from January 28, 1988.") (emphasis in original).

Section 9 of the Federal Arbitration Act provides, in pertinent part, as follows:

> If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon, the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made . . . .

28 U.S.C. §9. As discussed above, no grounds for vacating the arbitration award have been established by petitioners. According to the rules of the American Arbitration Association, which the parties agreed would govern any submission to arbitration, see document 3 of record, Exhibit 5, at par 21, parties to arbitration "shall be deemed to have consented that judgment on the arbitration award may be entered in any federal or state court having jurisdiction thereof." See id., Exhibit 28, Rule 47(c). The arbitration award was entered in Wilkes-Barre. As the court's jurisdiction in this matter is

uncontested, respondents' motion to confirm the arbitration award will be granted.[3]

An appropriate Order will enter.

/s/ William J. Nealon, Jr.
United States District Judge

DATED: April 18, 1989

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[3]Petitioners filed a motion for oral argument on February 24, 1989. See document 17 of record. Respondents noted their opposition on the same date. See document 16 of record. A supporting brief was submitted on March 3, 1989, and respondents filed their opposition brief on March 13, 1989. See documents 18 and 19 of record, respectively. The decision to grant oral argument rests within the discretion of this court. See Fed.R.Civ.P. 78; M.D. Local Rule 404. In the instant case, the court does not believe that oral argument is necessary for a proper disposition of this dispute. Petitioners' motion will therefore be denied.

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

ORTHOKINETICS, INC. and EDWARD J. GAFFNEY,	)	
Petitioners/ Cross Respondents,	)	
	)	**Civil Action No. 89-0097**
v.	)	
PENOX TECHNOLOGIES, INC. and LARRY HOHOL,	)	
Respondent/ Cross Petitioners.	)	

ORDER

NOW, this 18th day of April, 1989, in accordance with the accompanying Memorandum, IT IS HEREBY ORDERED THAT:

(1) Petitioners' motion to vacate the arbitration award is denied.

(2) Respondents' motion to confirm the arbitration award is granted.

(3) Petitioners' motion for oral argument is denied.

(4) Judgment is hereby entered in favor of

respondents and against petitioners in the amount of thirty two thousand one hundred and twenty three dollars and thirteen cents ($32,123.13), plus interest at the rate of six per cent (6%) per annum from January 28, 1988 to date of this judgment, and interest thereafter in accordance with 28 U.S.C. § 1961.

\s\ William J. Nealon, Jr.
United States District Judge

AMERICAN ARBITRATION ASSOCIATION
COMMERCIAL ARBITRATION TRIBUNAL

In the Matter of the Arbitration between

PENOX TECHNOLOGIES, INC.

-and-

ORTHOKINETICS, INC. AND
EDWARD J. GAFFNEY

CASE NUMBER: 14 133 0109 88 B/E

AWARD OF ARBITRATOR

I, THE UNDERSIGNED ARBITRATOR, having been designated in accordance with the Arbitration Agreement entered into by the above-named Parties, and dated May 21, 1986 and having duly heard the proofs and allegations of the Parties, AWARD as follows:

1. ORTHOKINETICS, INC. and EDWARD J. GAFFNEY, hereinafter referred to as RESPONDENTS, shall pay to PENOX TECHNOLOGIES, INC., hereinafter referred to as CLAIMANT, the sum of THIRTY-TWO THOUSAND ONE HUNDRED TWENTY-THREE DOLLARS AND THIRTEEN CENTS ($32,123.12), plus interest at the rate of 6% percent per annum from January 28, 1988 to date of payment.

2. Under the "Most Favored Licensee" provision of the Agreement between the parties, CLAIMANT is

entitled to pay 5% royalty on the net selling price of the Mechanism Base or FIFTEEN DOLLARS ($15.00), whichever is greater from January 28, 1988.

3. The administrative fees of the American Arbitration Association in the total amount of $1,302.99 shall be borne equally by the parties. Therefore, RESPONDENT shall pay directly to CLAIMANT the sum of $651.49 for their one-half share of the fees previously advanced by CLAIMANT to the Association.

4. The arbitrator's fees and expenses in the total amount of $609.55 shall be borne equally by the parties. Therefore, RESPONDENT shall pay to the American Arbitration Association the sum of $117.27 for the arbitrator's fees and expenses still due.

5. This Award is in full settlement of all claims submitted to this arbitration.

DATED: November 7, 1988 /s/
Raymond R. Carmon

NOTICE OF APPEAL
TO
U.S. COURT OF APPEALS, THIRD CIRCUIT

US DISTRICT COURT
Middle District of Pennsylvania, Harrisburg, PA
(District/State) (Location)

U.S. TAX COURT [] CIRCUIT COURT
DOCKET NO. _____
(leave blank)

FULL CAPTION IN DISTRICT COURT AS FOLLOWS:

DISTRICT or
TAX COURT
DOCKET NO. 89-0097

ORTHOKINETICS, INC.
and EDWARD J. GAFFNEY,
Petitioners/
Cross Respondents

v.

DISTRICT OR
TAX COURT
JUDGE Judge Nealon

PENOX TECHNOLOGIES, INC.
and LARRY HOHOL,
Respondents/
Cross Petitioners

Notice is hereby given that Orthokinetics, Inc.
(Named Party)

appeals to the United States Court of Appeals for the Third Circuit from [X] Judgment [ ] Order [ ] Other (Specify) _____

_____

entered in this action on April 18, 1989

A true and correct copy
of the Order is attached hereto as
Exhibit A.

DATED: May 16, 1989

/s/ Franklin A Miles _____ _____
(Counsel for Appellant-Signature) (Counsel for Appellee)

Franklin A. Miles, Jr.
(Name of Counsel - Typed)
McNees, Wallace & Nurick
P.O. Box 1166
Harrisburg, PA 17108-1166
717-232-8000
(Tel. No. - U.S. Gov't. FTS or Other)

Richard A. Russo, Esquire
Rosen, Jenkins & Greenwald
15 South Franklin Street
Wilkes-Barre, PA 18711
717-826-5600

NOTE: USE ADDITIONAL SHEETS if all appellants and/or all counsel for appellees cannot be listed on the notice of appeal sheet.

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

ORTHOKINETICS, INC. and EDWARD J. GAFFNEY,	)
Petitioners	)
	)Civil Action No. CV-890097
v.	)
PENOX TECHNOLOGIES, INC.,	)
Respondent	)

MOTION TO EXTEND THE TIME
FOR FILING A NOTICE OF APPEAL AND
TO CONFORM THE NOTICE OF APPEAL

Petitioners Orthokinetics, Incorporated and Edward J. Gaffney, by their attorneys McNees, Wallace & Nurick, hereby file the following Motion to Extend the Time for Filing a Notice of Appeal and to Conform the Notice of Appeal in support of which they set forth as follows:

1. Judgment was entered in the United States District Court for the Middle District of Pennsylvania on April 18, 1989, in favor of Respondent Penox Technologies, Inc.

2. Notice of Appeal was filed with this Court on May 16, 1989.

3. The Notice of Appeal indicated that notice was given that Petitioner Orthokinetics, Inc. appealed to the United States Court of Appeals for the Third Circuit from the April 18, 1989, judgment.

4. Due to a clerical error, the Notice of Appeal did not indicate that Petitioner Edward J. Gaffney appealed to the United States Court of Appeals for the Third Circuit.

5. On May 19, 1989, a Transcript Order Form indicating that both Orthokinetics, Inc. and Edward J. Gaffney intended to appeal the April 18, 1989, judgment was sent to both Penox Technologies, Inc. and the Third Circuit Court of Appeals.

6. The Third Circuit Court of Appeals received the Transcript Order Form on May 22, 1989.

7. On May 24, 1989, Petitioners sent to Respondent an Appellants' Designation of Appendix which indicated that the appeal was being taken by both Orthokinetics, Inc. and Edward J. Gaffney.

8. On June 5, 1989, a Civil Appeal Information

Statement was filed with the Third Circuit Court of Appeals indicating that both Orthokinetics, Inc. and Edward J. Gaffney were appealing the judgment entered in the District Court.

9. Pursuant to Federal Rule of Appellant Procedure 4(a)(5), the District Court, upon a showing of excusable neglect or good cause, may extend the time for filing a notice of appeal upon motion filed not later than thirty (30) days after the expiration of the time prescribed by Rule 4(a).

10. Pursuant to Federal Rule of Appellant Procedure 4(a)(1), a notice of appeal must be filed within thirty (30) days after the date of entry of the judgment or order appealed from.

11. Pursuant to Federal Rule of Appellant Procedure 4(a)(3), if a timely notice of appeal is filed by a party, any other party may file a notice of appeal within (14) days after the date on which the first notice of appeal was filed or within the time prescribed by Rule 4(a), whichever period last expires.

12. Petitioner Edward J. Gaffney seeks an extension of time for the filing of a notice of appeal by this Motion

filed not later than thirty (30) days after the time prescribed by Rules 4(a)(1) and 4(a)(3).

13. The absence of Edward J. Gaffney's name on the original Notice of Appeal resulted from excusable neglect because it was due to a clerical error.

14. Good cause exists to extend the time for filing a notice of appeal because RESPONDENTS were aware that Edward Gaffney desired to appeal the judgment of the District Court from a time shortly after the Notice of Appeal was filed.

15. The action taken on behalf of Edward J. Gaffney was the functional equivalent of a notice of appeal because both the Transcript Order Form received by the Third Circuit Court of Appeals on May 22, 1989, and the Civil Appeal Information Statement indicated; the parties seeking to take the appeal; the judgment or order appealed from; and the court to which the appeal was taken.

16. Respondents will not suffer prejudice as a result of the granting of this Motion as they were award that Edward J. Gaffney intended to appeal the judgment of the District Court when they received the Transcript

Order Form, Appellant's Designation of Appendix and the Civil Appeal Information Statement.

17. No possibility exists that the Respondents were misled regarding Edward J. Gaffney's intent to appeal the judgment of the District Court.

18. The forfeiture of Edward J. Gaffney's right to appeal the judgment of the District Court is an excessive sanction.

19. Petitioners' counsel have exercised due diligence and made substantial good faith efforts to comply with Federal Rules of Appellant Procedure 3 and 4.

WHEREFORE, Petitioners Orthokinetics, Incorporated and Edward J. Gaffney respectfully request that this Court extend the time for filing a notice of appeal on his behalf or conform to the current Notice of Appeal to include his name and the other documents regarding the appeal have indicated.

McNEES, WALLACE & NURICK

By /s/

Diane M. Tokarsky
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
(717) 232-8000

Attorneys for Petitioners
Orthokinetics, Incorporated and
Edward J. Gaffney

Dated: June 29, 1989

NOTICE OF APPEAL
TO
U.S. COURT OF APPEALS, THIRD CIRCUIT

US DISTRICT COURT
Middle District of Pennsylvania, Harrisburg, PA
(District/State) (Location)

U.S. TAX COURT [] CIRCUIT COURT
DOCKET NO. _____
(leave blank)

FULL CAPTION IN DISTRICT COURT AS FOLLOWS:

DISTRICT or
TAX COURT
DOCKET NO. 89-0097

ORTHOKINETICS, INC.
and EDWARD J. GAFFNEY,
Petitioners/
Cross Respondents

v.

DISTRICT OR
TAX COURT
JUDGE Judge Nealon

PENOX TECHNOLOGIES, INC.
and LARRY HOHOL,
Respondents/
Cross Petitioners

Notice is hereby given that Edward J. Gaffney
(Named Party)

appeals to the United States Court of Appeals for the Third Circuit from [X] Judgment [ ] Order [ ] Other (Specify) _____

_____

entered in this action on April 18, 1989

A true and correct copy
of the Order is attached hereto as
Exhibit A.

DATED:

/s/ Franklin A Miles _____
(Counsel for Appellants-Signature) (Counsel for Appellee)

Franklin A. Miles, Jr.
(Name of Counsel - Typed)
McNees, Wallace & Nurick
P.O. Box 1166
Harrisburg, PA 17108-1166
717-232-8000
(Tel. No. - U.S. Gov't. FTS or Other)

Richard A. Russo, Esquire
Rosen, Jenkins & Greenwald
15 South Franklin Street
Wilkes-Barre, PA 18711
717-826-5600

NOTE: USE ADDITIONAL SHEETS if all appellants and/or all counsel for appellees cannot be listed on the notice of appeal sheet.

UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

ORTHOKINETICS, INC.
and EDWARD J. GAFFNEY,
Petitioners

v. CIVIL NO. 89-0097

PENOX TECHNOLOGIES, INC.
and LARRY HOHOL
Respondents

ORDER

NOW, this 15th day of August, 1989, for the reasons outlined in petitioners' brief in opposition to respondents' motion for reconsideration of this court's Order of July 5, 1989, which granted petitioners' motion to conform its notice of appeal, IT IS HEREBY ORDERED THAT respondents' motion for reconsideration is denied. See document 34 of record.

\s\ William J. Nealon, Jr.
United States District Judge

1989 WL 152982 (2nd Cir.(N.Y.))

Renzalo MELTON, Plaintiff-Appellant,
v.
Anthony FRANK, Defendant-Appellee.
Docket No. 89-6170.
United States Court of Appeals,
Second Circuit.
Submitted Oct. 17, 1989.
Decided Dec. 14, 1989.

Pro se appeal was taken from a judgment of the United States District Court for the Southern District of New York, Charles L. Brieant, Chief Judge, in civil rights action. The Court of Appeals, Meskill, Circuit Judge, held that plaintiff's pro se motion to extend time to file notice of appeal was untimely. Motion to dismiss granted.

[1]
170BK668
FEDERAL COURTS
K. Time for filing in general. C.A.2 (N.Y.) 1989. Where party files notice of appeal on the 60th day after the entry of judgment, opposing party is automatically given 14 additional days within which to file notice of cross appeal. F.R.A.P.Rule 4(a)(3), 28 U.S.C.A.
Melton v. Frank
--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))
[2]
170BK669
FEDERAL COURTS
K. Commencement and running of time for filing; extension of time.
C.A.2 (N.Y.) 1989.

If motion to extend time for filing notice of appeal is filed timely, district court may grant extension either before or after expiration of grace period. F.R.A.P.Rule 4(a)(5).

Melton v. Frank

--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))

[3]

170BK669

FEDERAL COURTS

K. Commencement and running of time for filing; extension of time.

C.A.2 (N.Y.) 1989.

If motion to extend time for filing notice of appeal is not filed within rule's grace period, district court is without power to grant an extension.

F.R.A.P.Rule 4(a)(3, 5), 28 U.S.C.A.

Melton v. Frank

--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))

[4]

170BK669

FEDERAL COURTS

K. Commencement and running of time for filing; extension of time.

C.A.2 (N.Y.) 1989.

"Prescribed" filing period referred to in appellate rule, allowing extension of time for filing notice of appeal upon showing of excusable neglect or good cause not later than 30 days after expiration of prescribed time, necessarily incorporates any automatic extension under rule subdivision providing for 14-day extension for filing of cross appeal if timely notice of appeal is filed by a party. F.R.A.P.Rule 4(a)(3, 5), 28 U.S.C.A. Melton v.

Frank
--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))
[5]
170BK669
FEDERAL COURTS
K. Commencement and running of time for filing; extension of time.
C.A.2 (N.Y.) 1989.
Final day of prescribed filing period for notice of appeal is not also the first day of the 30-day grace period for filing notice of extension of time for filing notice of appeal upon showing of excusable neglect or good cause. F.R.A.P.Rule 4(a)(5), 28 U.S.C.A.
Melton v. Frank
--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))
[6]
170BK669
FEDERAL COURTS
K. Commencement and running of time for filing; extension of time.
C.A.2 (N.Y.) 1989.
Civil rights plaintiff's pro se motion to extend time to file notice of cross appeal was untimely; although defendant's filing of notice of appeal on the 60th day following entry of final judgment gave the plaintiff 14 additional days within which to timely cross appeal, and a 30-day grace period could be added, the motion was filed on the 31st day. F.R.A.P.Rule 4(a), 28 U.S.C.A.
Melton v. Frank
--- F.2d ----, 1989 WL 152982 (2nd Cir.(N.Y.))
Renzalo Melton, Spring Valley, N.Y., pro se.
Benito Romano, U.S. Atty., S.D.N.Y., Ping C. Moy, Sp. Asst. U.S. Atty.,
S.D.N.Y., New York City, for defendant-appellee.

Before LUMBARD, MESKILL and WINTER, Circuit Judges.

MESKILL, Circuit Judge:

This motion requires us to consider the interrelationship of the timing provisions of Fed.R.App.P. 4(a)(1), (a)(3) and (a)(5)--raising questions not previously decided in this Circuit. Movant Frank seeks the dismissal of this pro se appeal from a judgment of the United States District Court for the Southern District of New York, Brieant, C.J., awarding plaintiff-appellant Melton back pay and attorney's fees in the amount of $10,700 under Title VII of the Civil Rights Act of 1964, 42 U.S.C. ss 2000e et seq. Melton appeals the failure of the district court to order job reinstatement. Frank contends that the 106 day delay between the entry of final judgment and the filing of Melton's pro se motion to extend the time to file a notice of appeal pursuant to Fed.R.App.P. 4(a)(5) divested this Court of appellate jurisdiction.

The motion to dismiss the appeal is granted.

BACKGROUND

The relevant facts may be briefly stated. Plaintiff-appellant Melton, a former custodian of the United States Post Office in Nanuet, New York, filed suit under Title VII on March 2, 1988, alleging racial discrimination in his discharge from the Postal Service. Following a two day bench trial at which Melton was represented by counsel, he was awarded $8,000 in back pay and $2,700 in legal fees. Final judgment was entered

by Chief Judge Brieant on February 8, 1989. Pursuant to Fed.R.App.P. 4(a)(1), which provides, in pertinent part, that in civil cases to which the United States or an officer or agency thereof is a party, a notice of appeal must be filed within sixty days after the entry of judgment, defendant-appellee Frank, on April 10, 1989, filed a notice of appeal. Although April 10 was, in fact, the sixty-first day following the entry of final judgment, the sixtieth day fell on Sunday, April 9 and was therefore excluded from the computation. See Fed.R.App.P. 26(a). The appeal was subsequently dismissed by the district court on May 1, 1989 pursuant to a stipulation for dismissal signed by all parties. On May 25, 1989--106 days after the entry of judgment--Melton, proceeding pro se, filed a second notice of appeal and a motion for an extension of time to file a notice of appeal under subdivision (a)(5), contending that his failure to comply with subdivision (a)(1)'s sixty day deadline was the result of "excusable neglect." Chief Judge Brieant granted the extension on June 5, 1989.

Finally, on September 25, 1989, Frank moved to dismiss the appeal for lack of appellate jurisdiction, contending that Melton's May 25, 1989 motion for an extension was "filed outside the time limits set forth in Rule 4(a)(5)." We agree and, consequently, grant the motion.

DISCUSSION

[1][2][3] Although the requirement of a timely notice is "'mandatory and jurisdictional,' " Griggs v. Provident Consumer Discount Co., 459 U.S. 56, 61, 103 S.Ct. 400, 403, 74 L.Ed.2d 225 (1982) (per curiam) (quoting Browder v. Director, Dep't of Corrections, 434 U.S. 257, 264, 98 S.Ct. 556, 561, 54 L.Ed.2d 521 (1978)); accord 650 Park Avenue Corp. v. McRae, 836 F.2d 764, 766 (2d Cir.1988), the rigid sixty day limit imposed by subdivision

(a)(1) may, under certain circumstances, be extended either automatically pursuant to subdivision (a)(3) or in the discretion of the court pursuant to subdivision (a)(5), or both. Subdivision (a)(3) provides that "[i]f a timely notice of appeal is filed by a party, any other party may file a notice of appeal within 14 days after the date on which the first notice of appeal was filed, or within the time otherwise prescribed by this Rule 4(a), whichever period last expires." Fed.R.App.P. 4(a)(3). Thus, as in the instant case, where a party files a notice of appeal on the sixtieth day after the entry of judgment, the opposing party is automatically given fourteen additional days within which to file its notice of cross-appeal. [FN1] Subdivision (a)(5) provides that: The district court, upon a showing of excusable neglect or good cause, may extend the time for filing a notice of appeal upon motion filed not later than 30 days after the expiration of the time prescribed by this Rule 4(a). Any such motion which is filed before expiration of the prescribed time may be ex parte unless the court otherwise requires. Notice of any such motion which is filed after expiration of the prescribed time shall be given to the other parties in accordance with local rules. No such extension shall exceed 30 days past such prescribed time or 10 days from the date of entry of the order granting the motion, whichever occurs later. Fed.R.App.P. 4(a)(5). The Advisory Committee note to subdivision (a)(5) further cautions that "a motion to extend the time must be filed no later than 30 days after the expiration of the original appeal time." Fed.R.App.P. 4(a)(5) advisory committee's note (emphasis added). If the motion is filed timely--i.e., within the thirty day "grace period"--the district court may grant the extension either before or after the expiration of the grace period. Moore v. Nelson, 611 F.2d 434,

436 n. 4 (2d Cir.1979); Matter of Orbitec Corp., 520 F.2d 358, 360-61 (2d Cir.1975); C-Thru Prods., Inc. v. Uniflex, Inc., 397 F.2d 952, 954-55 (2d Cir.1968). If, however, the motion to extend is not filed within subdivision (a)(5)'s grace period, the district court is without power to grant an extension. See Alaska Limestone Corp. v. Hodel, 799 F.2d 1409, 1411 (9th Cir.1986); Victor F. v. Pasadena Indep. School Dist., 793 F.2d 633, 634 n. 2 (5th Cir.1986); Crossman v. Maccoccio, 792 F.2d 1, 2 (1st Cir.1986); United States ex rel. Leonard v. O'Leary, 788 F.2d 1238, 1239-40 (7th Cir.1986); Herman v. Guardian Life Ins. Co. of America, 762 F.2d 288, 290 (3d Cir.1985); Moore, 611 F.2d at 436 n. 4. Frank contends that because the time within which to file a notice of appeal under subdivision (a)(1) expired on April 10, 1989--sixty days after the February 8, 1989 entry of judgment--Melton's thirty day grace period under subdivision (a)(5) expired on May 10, 1989. Alternatively, Frank argues that, "[e]ven assuming ... Rule 4(a)(3) applies, the last day [on which appellant could have timely] file[d] the motion would have been May 24, 1989 (44 days after April 10, 1989)." We agree with Frank's alternative formulation. [4] Under a literal construction of Rule 4(a), see Campos v. LeFevre, 825 F.2d 671, 675-76 (2d Cir.1987), cert. denied, 484 U.S. 1014, 108 S.Ct. 718, 98 L.Ed.2d 667 (1988); Shah v. Hutto, 722 F.2d 1167, 1168 (4th Cir.1983) (in banc), cert. denied, 466 U.S. 975, 104 S.Ct. 2354, 80 L.Ed.2d 827 (1984); Brainerd v. Beal, 498 F.2d 901, 903 (7th Cir.) (per curiam), cert. denied, 419 U.S. 1069, 95 S.Ct. 655, 42 L.Ed.2d 664 (1974), Frank's timely filing of a notice of appeal on April 10, 1989--the sixtieth day following the entry of final judgment--automatically triggered subdivision (a)(3)'s fourteen day extension period. See

Fed.R.App.P. 4(a)(3). Melton therefore had fourteen days, beginning on April 10, within which to file a timely cross-appeal. Id. ("any other party may file a notice of appeal within 14 days after the date on which the first notice of appeal was filed") (emphasis added). Consequently, we conclude that the "prescribed" filing period referred to in subdivision (a)(5) necessarily incorporates any automatic extension under subdivision (a)(3). [FN2] Here, the "time prescribed by ... Rule 4(a)," upon which subdivision (a)(5)'s thirty day grace period may be added, extended through April 24, 1989. [5][6] We are, however, confronted with one final computational question before our temporal journey through the provisions of Rule 4(a) is complete: whether the final day of Rule 4(a)'s prescribed filing period is also the first day of the thirty day grace period under subdivision (a)(5). We conclude that it is not. Rule 26(a) unequivocally states that "[i]n computing any period of time prescribed by these rules, ... the day of the act, event, or default from which the designated period of time begins to run shall not be included." Fed.R.App.P. 26(a). We hold that Melton's failure to file a timely notice of appeal on April 24, 1989 was such a "default" within the framework of Rule 26(a). The computation of subdivision (a)(5)'s extension period therefore begins on April 25, 1989--the day following Melton's failure to file a timely notice of appeal. Consequently, Melton's May 25, 1989 filing of a motion for extension of time to file a notice of appeal was untimely, as May 25 was the thirty-first day after the "time prescribed by ... Rule 4(a)."

CONCLUSION

In light of the foregoing, the motion to dismiss is granted.

FN1. Although Melton's May 25, 1989 appeal technically

is not a cross-appeal, as Frank's initial appeal was withdrawn by stipulation on May 1, 1989, it will however, be referred to as such for purposes of simplicity. Furthermore, the fact that we are not dealing with a cross-appeal is of no substantive significance because the provisions of subdivision (a)(3) are explicitly made available to "any other party" and, as such, are plainly not limited to cross-appeals. Fed.R.App.P. 4(a)(3); see 16 C. Wright, A. Miller, E. Cooper & E. Gressman, Federal Practice and Procedure s 3950, at 363 (1977).

FN2. It should be noted that the fourteen day period comes into effect only if the initial notice of appeal is in fact filed within the final fourteen days of the period prescribed by subdivision (a)(1); the fourteen day period of subdivision (a)(3) "does not otherwise operate to extend, for the benefit of other parties, the basic 30-day or 60-day periods." 16 C. Wright, A. Miller, E. Cooper & E. Gressman, supra, s 3950, at 363.
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Supreme Court, U.S.
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FEB 28 1989
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No.89-1214

In the Supreme Court of the United States

October Term, 1989

ORTHOKINETICS, INC. and EDWARD J. GAFFNEY,
Petitioners

vs.

PENOX TECHNOLOGIES, INC. and LARRY HOHOL,
Respondents

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR RESPONDENTS

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COUNTERSTATEMENT OF QUESTIONS PRESENTED FOR REVIEW

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1. Whether Question No. 1 raised in the Petition for Writ of Certiorari was preserved by the Petitioners below?

2. Whether there exists no actual conflict between the Circuit Courts of Appeal regarding Question No. 1 raised in the Petition for Writ of Certiorari or no important question of federal law which has not been, but should be, settled by this Court?

3. Whether the factual nature of the dispute, the absence of a stenographic record of the arbitration hearing, and the lack of an Arbitrator's Opinion makes it inappropriate for the Supreme Court to grant a Writ of Certiorari?

4. Whether there exists no actual conflict between the Circuit Courts of Appeal regarding Question No. 2 raised in the Petition for Writ of Certiorari?

5. Whether the unclear record regarding the essential elements of Fed. R.A.P. 4(a)(5) makes it inappropriate for the Supreme Court to grant a Writ of Certiorari?

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COUNTERSTATEMENT OF THE CASE

On May 21, 1986, PENOX TECHNOLOGIES, INC., a Pennsylvania corporation ("OLD PENOX"), ORTHOKINETICS, INC, ("ORTHO"), and EDWARD J. GAFFNEY ("GAFFNEY"), entered into a patent license Agreement ("Penox Original License"). Subsequently, ORTHO, GAFFNEY, and Super Sagless Corporation ("SS") entered into a License Agreement ("SS License").

Paragraph 12 of the Penox original License provided as follows:

> In the event ORTHOKINETICS or GAFFNEY...grants a license under Letters Patent in No. 4, 007, 960 to any other party on terms more favorable than those provided herein,... PENOX shall have the option, at any time within two (2) months after receiving a copy of said license, to avail itself of such more favorable terms upon notice in writing to ORTHOKINETICS, provided that PENOX also accepts all other licensee obligations set forth in such license....

OLD PENOX timely notified ORTHO and GAFFNEY, in writing, that OLD PENOX exercised its option to avail itself of the terms of the SS License.

Paragraph 4 of the PENOX Original License provided as follows:

> ...PENOX shall pay ORTHOKINETICS a royalty on each and every reclining lift chair within the scope of... said... Patent... actually sold by PENOX... for which payment has been received by PENOX..., which royalty shall be equal to five percent (5%) of PENOX's net selling

price for such chair or $15.00 per chair, whichever is greater....

Paragraph 4 of the SS License provided as follows:

> ...SS [SUPER SAGLESS] shall pay OKI [ORTHO] an earned royalty on each and every reclining *lift chair and/or mechanisms* therefor within the scope of... said... Patent... actually sold by SS... commencing the 1st day of November, 1986 and for which the net sales price has been received by SS..., which royalty shall be equal to five percent (5%) of SS's net selling price *for such chair* or $15.00 *per chair*, whichever is greater.... [Emphasis supplied.]

Pursuant to Paragraph 4 of the SS License, SS was required to pay ORTHO an earned royalty on "each and every reclining *lift chair and/or mechanisms* therefor" sold by SS, and the amount of the royalty "shall be equal to five percent (5%) of SS's net selling price *for such chair* or $15.00 *per chair*, whichever is greater.... (Emphasis supplied.)

Notwithstanding the clear language of Paragraph 4 of the SS License, ORTHO and GAFFNEY were not charging SS a royalty equal to five percent (5%) of the net selling price for such chair or $15.00 per chair, whichever was greater. In fact, SS was charged only a royalty of five percent (5%) of the net selling price for the mechanism for the lift chair or $15.00 per mechanism, whichever was greater. In reality, the $15.00 per mechanism was greater than five percent (5%) of the net selling price for the mechanism. Moreover, when SS sold the mechanism to another company which added the chair to the mechanism and sold the finished product, the purchaser of the mechanism from SS was not charged any additional royalty because it was deemed to be an "implied licensee".

OLD PENOX argued that once it assumed the SS License, it was entitled to pay the same royalty, and to receive the same construction of the royalty terms, as ORTHO and GAFFNEY were providing to SS, ORTHO's largest and most profitable customer. OLD PENOX argued this by virtue of the "most favored licensee" clause which was contained in Paragraph 12 of the PENOX Original License and Paragraph 12 of the SS License.

When ORTHO and GAFFNEY claimed that OLD PENOX was required to pay a royalty of five percent (5%) of the net selling price of the *chair* or $15.00, whichever was greater, notwithstanding the fact that SS was charged a royalty of only five percent (5%) of the net selling price for the *mechanism* or $15.00, whichever was greater, OLD PENOX filed a Demand for Arbitration.

Paragraph 21 of the PENOX Original License and Paragraph 19 of the SS License both provided as follows:

> The parties hereto agree that if any dispute should arise as to the terms and conditions of this Agreement which cannot be resolved by the parties, that said dispute shall be resolved by submitting said dispute to the American Arbitration Association pursuant to its rules and regulations....

On September 13, 1988, a hearing was held before the arbitrator selected by the American Arbitration Association, at which time all parties appeared and participated. All parties were furnished with a full and fair opportunity to present testimony and documentary evidence. On November 7, 1988, the Arbitrator entered an award in favor of OLD PENOX, which is set forth at Petitioners' Appendix, Pg. A-32.

ORTHO and GAFFNEY filed a Petition to Vacate the Award of Arbitrator with the United States District Court for the Middle District of Pennsylvania on the basis that the Arbitrator exceeded his authority and/or committed a manifest disregard of law. OLD PENOX filed a Cross-Motion to Confirm the Award of Arbitrator.

On December 27, 1988, OLD PENOX sold substantially all of its assets, including its entire reclining chair business, to Big Ben Group, Ltd., a Missouri corporation, assignee of Essex Industries, Inc., which sale included the License Agreement, and the rights held in connection therewith, which OLD PENOX had with ORTHO and GAFFNEY, and the terms and provisions were accepted by the assignee in writing. Pursuant to the Asset Purchase Agreement, all post-closing benefits from the arbitration award in question belong to Big Ben Group, Ltd., and all pre-closing benefits were retained by OLD PENOX. The closing regarding this asset sale took place on December 27, 1988. On or about December 30, 1988, OLD PENOX changed its corporate name to LeaseCor Capital, Inc., and on December 31, 1988, LeaseCor Capital, Inc. was liquidated, and all of its assets, subject to its liabilities, were distributed to LARRY HOHOL as sole shareholder on that date.

On or about January 17, 1989, Big Ben Group, Ltd. changed its corporate name to PENOX TECHNOLOGIES, INC., a Missouri corporation ("NEW PENOX").[1] As a result, NEW PENOX and LARRY HOHOL ("HOHOL") each has an interest in the November 7, 1988 award of Arbitrator. A Motion for Substitution of Parties was filed, and the District

[1] PENOX TECHNOLOGIES, INC. is not a publicly held corporation, and has no parent company, subsidiary or affiliate corporation.

Court entered an Order substituting NEW PENOX and HOHOL as Respondents in connection with the Motion to Vacate the Arbitrator's Award, and as Petitioners in connection with the Cross-Motion to Confirm the Arbitrator's Award.

On April 18, 1989, the District Court entered a Memorandum and Order denying the Petition to Vacate the Arbitrator's Award filed by ORTHO and GAFFNEY. This same Order granted the Respondents' Cross-Motion to Confirm the Arbitrator's Award. Same is set forth at Petitioners' Appendix., Pg. A-13.

On May 16, 1989, ORTHO filed a Notice of Appeal with the United States Court of Appeals for the Third Circuit. On June 29, 1989, ORTHO and GAFFNEY filed a Motion for Enlargement of Time with the District Court within which to file a Notice of Appeal and to Conform the Caption to include GAFFNEY as an Appellant. The District Court, without opinion, granted the aforementioned Motion on July 5, 1989. On July 14, 1989, NEW PENOX and HOHOL filed a Motion for Reconsideration of the Court's Order granting GAFFNEY's Motion for Enlargement of Time, which was denied.

On November 3, 1989, the Court of Appeals for the Third Circuit affirmed the decision of the District Court because: (a) on the merits, the arbitrator did not exceed his authority or commit a manifest disregard of law, and (b) in any event, GAFFNEY had failed to timely appeal the District Court's ruling. Same is set forth at Petitioners' Appendix, Pg. A-1.

SUMMARY OF ARGUMENT

Just as in the labor field, there exists a strong federal policy favoring commercial arbitrations. *Shearson/American Express, Inc. v. McMahon*, 482 U.S. 220, 107 S.Ct. 2332, 96 L.Ed. 2d 185 (1987) *reh. den.* 483 U.S. 1056, 108 S.Ct, 31, 97 L.Ed. 2d 819 (1987). This federal policy is a pervasive one which ought not to be lightly overridden. The basic policy of the Federal Arbitration Act is to promote the speedy disposition of disputes without the expense and delay of protracted court proceedings.

The decision of the Court of Appeals in the instant matter was in accord with the decisions of the Supreme Court of the United States regarding the standard of review in labor arbitration cases. The Petitioners submitted these labor cases to the Court below and should not be heard to complain when the Court of Appeals relied on them. Moreover, the Arbitrator's determination turned on the facts developed before him, and there does not exist any transcript of the hearing as neither party requested one. There exists no special and important reason for this Court to hear this matter, especially because the necessity of an intense factual analysis makes this a case of little significance to anyone except the litigants.

In addition, regarding the second issue raised by Petitioners, the alleged conflict in the Circuits arises from the Petitioners' inability or unwillingness to distinguish between holding and dicta. Upon careful analysis, the holdings of the cases cited by Petitioners are entirely consistent.

In summary, while this case is obviously important to the parties, there is lacking any element of national significance or importance which should detract from or interfere with this

Court's ability to consider and resolve the more important issues confronting our nation.

QUESTION NO. 1

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1. The Position Taken By Petitioners In Requesting The Supreme Court To Grant A Writ Of Certiorari Is Inconsistent With The Position Taken By Them In The Court Below

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There exists no reason, much less a special and important reason, for this Honorable Court to grant a Writ of Certiorari in this matter. Supreme Court Rule 17 provides that:

> A review on writ of certiorari is not a matter of right, but of judicial discretion, and will be granted only when there are *special and important reasons* therefor [emphasis added].

It further provides that the following factors, while neither controlling nor fully measuring the Court's discretion, indicate the character of the reasons that will be considered:

> (a) When a federal court of appeals has rendered a decision in conflict with the decision of another federal court of appeals on the same matter; or has decided a federal question in a way in conflict with a state court of last resort; or has so far departed from the accepted and usual course of judicial proceedings, or so far sanctioned such a departure by a lower court, as to call for an exercise of this Court's power of supervision.
>
> (b) When a state court of last resort has decided a federal question in a way in conflict with the decision of

another state court of last resort or of a federal court of appeals.

(c) When a state court or a federal court of appeals has decided an important question of federal law which has not been, but should be, settled by this Court, or has decided a federal question in a way in conflict with applicable decisions of this Court.

Regarding the first question raised for review by the Petitioners, while the Petition is vague, the only basis submitted by Petitioners in support of an appeal appears to be that the standard of review of commercial arbitration proceedings under the Federal Arbitration Act must be clarified. (Page 8 of Petition for Writ of Certiorari.) Petitioners contend that it is not clear whether this Court's precedents in labor arbitration cases define the standard of review for proceedings to vacate commercial arbitration awards under the Federal Arbitration Act. Petitioners did not raise this issue in the Court below. To the contrary, the Petitioners cited labor arbitration cases to the Court below as the standard of review. (See the attached Appendix.) Both the District Court and the Court of Appeals followed labor arbitration cases in denying the Motion to Vacate and in granting the Motion to Confirm the Arbitrator's Award. Significantly, the Petitioners on page 9 of their Brief with the Court of Appeals stated, "although the District Court examined the appropriate authorities it did not follow the applicable law set forth therein." In addition, the Petitioners referred the Court of Appeals to this Court's opinion in *United Steelworkers of America v. Enterprise Wheel & Car Corp.*, 363 U.S. 593, 80 S.Ct. 1358, 4 L.Ed. 2d 1424 (1960), and stated in their Brief that:

> The [arbitrator's] award is legitimate only so long as it draws its essence from the agreement. When the award

is not based on the agreement, the Courts have no choice but to refuse to enforce the award, *United Steelworkers of America v. Enterprise Wheel & Car Corp.*, 363 U.S. 593, 80 S.Ct. 1358 (1960).

It is clear that this Court will refrain from addressing issues not raised or presented in the Court of Appeals. *EEOC v. Federal Labor Relations Authority*, 476 U.S. 19, 90 L.Ed. 2d 19, 106 S.Ct. 1678 (1986). Before the Court of Appeals, the Petitioners referred the Court to labor cases as setting the standard for review, and as noted above, stated that the District Court had examined "the appropriate authorities." Given such statements and actions by Petitioners below, it is submitted that there are no special and important reasons for this Honorable Court to grant review on a Writ of Certiorari. The issue was neither properly preserved by the Petitioners nor fully developed before the Court of Appeals. Accordingly, the Petition for Writ of Certiorari should be denied.

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2. There Exists No Actual Conflict Or Inconsistency Between The Circuit Courts Nor Is There An Important Question Of Federal Law Which Has Not Been, But Should Be, Settled By This Court

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Assuming *arguendo* that the Petitioners properly preserved for review the issue they raise regarding the applicability of the labor standard of review to a commercial arbitration case, there exists no actual conflict among the Circuit Courts nor an important question of federal law which has not been, but should be, settled by this Court.

Before the Court of Appeals, Petitioners relied upon *United Steelworkers of America v. Enterprise Wheel & Car*

Corporation, supra, and its progeny, as the standard of review for the instant matter. An analysis of the opinion of the Court of Appeals for the Third Circuit shows that that court followed well-established principles of the United States Supreme Court which have been widely recognized in the other Circuit Courts of Appeal.

The Court of Appeals determined that the district court confirmed the Arbitrator's award because:

> ... [Petitioners] had failed to show that the award was fundamentally irrational or failed to draw its essence from the parties' agreement. [Petitioners' Appendix at A-12.]

The Court of Appeals further determined:

> We also do not find that the arbitrator's award was irrational or failed to draw its essence from the royalty agreement at issue. [Petitioners' Appendix at A-12.]

Additionally, the Court of Appeals ruled that:

> The arbitrator could have determined from the testimony of the parties that the most favored licensee agreement would have little meaning if the term is [sic] used to calculate the product was different. ...Thus, the arbitrator was giving meaning to the intent behind the clause, rather than an illusory written interpretation. [Petitioners' Appendix at A-12.]

In *United Paperworkers International Union, AFL-CIO v. Misco, Inc.*, 484 U.S. 29, 108 S.Ct. 364, 98 L.Ed. 2d 286 (1987), a case involving several aspects of when a federal court may refuse to enforce arbitration awards under a collective bargaining agreement on the basis of *public policy*, the Court reaffirmed the *Enterprise Wheel* standard, stating:

> As the Court has said, the arbitrator's award settling a dispute with respect to the interpretation or application

> of a labor agreement must draw its essence from the contract and cannot simply reflect the arbitrator's own notions of industrial justice. But as long as the arbitrator is even arguably construing or applying the contract and acting within the scope of his authority, that a court is convinced he committed serious error does not suffice to overturn his decision.

98 L.Ed. 2d at 299.

Petitioners, in their brief, correctly recognize that *Enterprise Wheel* and *Misco* both promote use of the "essence" test. Both the District Court and Court of Appeals for the Third Circuit determined that the Arbitrator had construed and applied the contract terms, and as such, did not exceed his authority. As such, the opinion of the Court below is entirely consistent with this Court's opinion in *Misco*.[2] It is clear that *Misco* reaffirmed the "essence" test, as was pronounced in *Enterprise Wheel*, and the Court below utilized precisely that test. Both of the lower courts believed that the Arbitrator's decision was not irrational, in other words, that his award was an arguable construction and application of the contract. This was especially so where the applicable contract contained a most favored licensee clause, as was the case here.

The decision of the Court of Appeals for the Third Circuit is in accord with the decisions of the Supreme Court of the United States and rulings throughout the various Circuit Courts regarding the standard of review for proceedings to

---

[2] It is also interesting to note that while the Petitioners contend in their Petition that "[T]he Third Circuit ignored *Misco*, although it was cited ... by Petitioners" [See Pg. 21 of Petition for Writ of Certiorari], the Petitioners' only reference to *Misco* in their Brief below was one isolated reference within a quote from an 8th Circuit opinion, *Inter-City Gas Corp. v. Boise Cascade Corp.*, 845 F.2d 184 (8th Cir. 1988). [See Petitioners' Brief below at Pg. 15.]

vacate arbitration awards. *Enterprise Wheel* established a broad test as to whether the Arbitrator's award "draws its essence" from the agreement of the parties. The various Circuit Courts have interpreted the ruling of *Enterprise Wheel* and consistently list uniform criteria to determine whether an arbitration award is subject to vacation.

In *Enterprise Wheel,* the Court held that:

> Nevertheless, an arbitrator is confined to interpretation and application of the ... agreement; he does not sit to dispense his own brand of industrial justice. He may of course look for guidance from many sources, yet his award is legitimate only so long as it draws its essence from the ... agreement.

4 L.Ed. 2d at 1428.

In *Misco,* the Court held:

> ...the arbitrator's award settling a dispute with respect to the interpretation or application of a labor agreement must draw its essence from the contract and cannot simply reflect the arbitrator's own notions of industrial justice. But as long as the arbitrator is *even arguably construing or applying the contract* and acting within the scope of his authority, that a court is convinced he committed serious error does not suffice to overturn his decision [emphasis supplied].

98 L.Ed. 2d at 299.

The Third Circuit, in accord with *Misco* and *Enterprise Wheel,* recognized the duty of the arbitrator to interpret and apply the terms contained in the agreement itself.

The various Circuit Courts are consistent in reviewing arbitration awards to determine if grounds for vacating an

award are present. Some Circuits have adopted the "rational" test, that:

> 'An arbitrator's award does "draw its essence from the ... agreement" so long as the interpretation can in some rational manner be derived from the agreement, "viewed in the light of its language, its context and any other indicia of the parties' intention ...." '

Tootsie Roll Industries, Inc. v. Local Union, No. 1, Bakery, Confectionery and Tobacco Workers' International Union, 832 F.2d 81, 83 (7th Cir. 1987).

> An award fails to derive its essence from the agreement when (1) an award conflicts with express terms of the collective bargaining agreement [citation omitted]; (2) an award imposes additional requirements that are not expressly provided in the agreement [citation omitted]; (3) an award is without rational support or cannot be rationally derived from the terms of the agreement [citation omitted]; and (4) an award is based on general considerations of fairness and equity instead of the precise terms of the agreement [citation omitted].

Cement Division, National Gypsum Co. v. United Steel Workers of America, AFL-CIO-CLC, Local 135, 793 F.2d 759, 766 (6th Cir. 1986), *citing Timken Co. v. United Steel Workers of America*, 482 F.2d 1012 (6th Cir. 1973).

> ...'[A]s long as arbitrators remain within their jurisdiction and do not reach an irrational result, they may "fashion the law to fit the facts before them" and their award will not be set aside because they erred in the determination or application of the law ... .'

I/S Stavborg v. National Metal Converters, Inc., 500 F.2d 424, 431 (2d Cir. 1974) *citing Marcy Lee Manufacturing Co. v. Cortley Fabrics Co.*, 354 F.2d 42 (2d Cir. 1965).

Still other Circuit Courts have attempted to delineate factors useful in determining whether an award "draws its essence" from the agreement of the parties. As stated in *Pack Concrete, Inc. v. Cunningham and Teamsters Local No. 2*, 866 F.2d 283, 285 (9th Cir. 1989):

> The scope of review of an arbitrator's decision is extremely narrow. [Citations omitted]. 'As long as the arbitrator's award "draws its essence from the ... agreement" and is not merely "his own brand of industrial justice," the award is legitimate.' [Citations omitted]. "[I]f on its face, the award represents a plausible interpretation of the contract, judicial inquiry ceases and the award must be enforced." [Citations omitted].

In *United Food and Commercial Workers Local Union No. 7R v. Safeway Stores, Inc. and Cortez*, 889 F.2d 940, 946-947 (10th Cir. 1989), the Court stated:

> '[W]here the question of the submission to the arbitrator is vague, the award of the arbitrator will not be set aside in a subsequent court proceeding, unless it can be shown that the essence of the resulting award was not drawn from the collective bargaining agreement.' [Citations omitted.] The parties may limit the discretion of the arbitrator, such as through submitting a precise statement of the issues to the arbitrator or through providing express limitations in the collective bargaining agreement. [Citation omitted.] When the parties fail to limit the scope of the submission, however, we will affirm the arbitrator's award if it draws its essence from the ... agreement and

> is not contrary to the express language of that agreement. [Citations omitted.]
>
> We will not interfere with an arbitrator's decision 'unless it can be said with positive assurance that the contract is not susceptible to the arbitrator's interpretation.' [Citations omitted.] '[A]s long as the arbitrator is even arguably construing or applying the contract and acting within the scope of his authority, that a court is convinced he committed serious error does not suffice to overturn his decision.' [Citation omitted.]

Regardless of the specific criteria considered by the Circuit Courts, the tests as pronounced by the Circuit Courts require the reviewing court to make a careful analysis of the agreement between the parties and a determination as to whether the Arbitrator arguably construed or applied the contract in arriving at his or her determination. As aptly stated in *Enterprise Wheel:*

> There the need is for flexibility in meeting a wide variety of situations. The draftsmen may never have thought of what specific remedy should be awarded to meet a particular contingency.

4 L.Ed. 2d at 1428.

The District Court and the Court of Appeals for the Third Circuit determined that the award herein was not fundamentally irrational nor did it fail to draw its essence from the parties' agreement. The decision of the Third Circuit was in accordance with the decisions of the Supreme Court of the United States, its own precedents, and rulings throughout the Circuit Courts of Appeal regarding the standards to be applied. As such, there exists neither a conflict between the Circuit Courts, nor an important question of federal law which

has not been, but should be, settled by this Court. Due to the uniformity of the decisions among the various Circuit Courts and this Court, as well as the inconsistency in the position taken first by the Petitioners below and now here, the Petition for Writ of Certiorari should be denied.

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3. The Petition For Writ Of Certiorari Should Be Denied Because The Arbitrator's Determination Was Based Upon The Facts Presented To Him, And There Is No Adequate Or Clear Record Of The Arbitration Hearing

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The Court of Appeals for the Third Circuit noted in the instant matter, "although our review is made more difficult since the arbitrator did not write an opinion to explain his interpretation, it is obviously not for us to rewrite the contract, but rather, to determine whether the contract will support the arbitrator's interpretation." Petitioners' Appendix at A-11. The Court may dismiss a Petition for Writ of Certiorari where the record is unclear or obscure. *Taggert v. Weinacker's, Inc.*, 397 U.S. 223, 90 S.Ct. 876, 25 L.Ed. 2d 240 (1970). Neither the District Court nor the Court of Appeals could say that the Arbitrator was not arguably construing or applying the license agreement in arriving at his determination. The arbitration hearing turned upon the facts presented there, construed in light of and in conjunction with the most favored licensee clause of the contract. While either party had the right to request a stenographic record pursuant to the rules of the American Arbitration Association, no party made such a request. Without any stenographic record or opinion, the Respondents submit that the Court should deny the Petition for Writ of Certiorari.

Additionally, even it the Court could recreate the factual record by affidavits, the Court should nonetheless deny the Petition for Writ of Certiorari as the Arbitrator's determination turned upon factual questions. Where an issue for which the Court granted certiorari turned upon certain factual questions, the Writ was dismissed as improvidently granted since a review of the findings of fact would be of no importance except to the litigants themselves. *Rudolph v. United States,* 370 U.S. 269, 82 S.Ct. 1277, 8 L.Ed. 2d 484 (1962), *reh. den.* 371 U.S. 854, 83 S.Ct. 15, 9 L.Ed. 2d 93 (1962).

For the foregoing reasons, the Petition for Writ of Certiorari should be denied.

QUESTION NO. 2

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4. The Petition For Writ Of Certiorari Should Be Denied Because There Exists No Actual Conflict Between The Circuit Courts Of Appeal

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The Petitioners' only basis for this Court's exercising its discretion to grant review on a writ of certiorari regarding Question No. 2 is the contention that a conflict exists between one decision from the Court of Appeals for the Second Circuit and one decision from the Court of Appeals for the Third Circuit. The Petitioners do not refer the Court to any decision from any other circuit which even addresses this issue. A careful analysis of the two decisions cited by Petitioners discloses that no actual conflict exists between the holdings of these decisions, and the alleged conflict is nothing more than Petitioners' failure to distinguish between holding and dicta.

Petitioners contend that the ruling in *Melton v. Frank*, 891 F.2d 1054 (2d Cir. 1989), conflicts with the ruling entered by the Third Circuit in the instant matter which held that the failure of Petitioner, GAFFNEY, to file a timely Notice of Appeal or Motion for Enlargement of Time to Appeal constituted a jurisdictional bar to the appeal. The Court also held that upon the timely filing of a Notice of Appeal by the Petitioner, ORTHO, jurisdiction over the case was immediately transferred from the district court to the Court of Appeals, and an untimely Motion for Enlargement of Time did not present an instance in which the district court retained power to act.

The Court in *Melton* similarly held that an appeal would be dismissed for lack of appellate jurisdiction where there was a 106 day delay between the entry of final judgment and the filing of a *pro se* Motion to Extend the Time to File a Notice of Appeal. As such, the holding of the Court of Appeals for the Second Circuit in *Melton* is consistent with the holding of the Court of Appeals for the Third Circuit in the instant matter.

Petitioners are incorrect when they state that the holding of the Second Circuit in *Melton* was that "a Motion for Extension of Time for a Cross Appeal would be timely if filed within 104 days ... because of the automatic fourteen day extension following a timely filed first Notice of Appeal to an 'other party' under Rule 4(a)(3) and the 30 days afforded under Rule 4(a)(5)." Instead, the Court in *Melton* held that the appeal should be dismissed due to the absence of appellate jurisdiction because of the failure of the appellant to file a timely Notice of Appeal or Motion for Extension of Time to Appeal. Rather than referring this Court to the holding in *Melton*, Petitioners are looking to dictum in the Second Circuit's

opinion in a futile and transparent attempt to manufacture an inconsistency between the Circuit Courts of Appeal.

Any reference by the Second Circuit as to whether the time for filing a Motion for Enlargement of Time under Fed. R.A.P. 4(a)(5) runs from the time set forth in Fed. R.A.P. 4(a)(1) or from the combined time of Fed. R.A.P. 4(a)(1) and 4(a)(3) was totally unnecessary to its decision. This is so because the Second Circuit concluded that the Motion for Enlargement of Time was filed more than thirty (30) days after the expiration of either of such time periods. Accordingly, the reference by the Second Circuit, which Petitioners claim is inconsistent with the opinion of the Third Circuit, was unnecessary and surplusage. Respondents respectfully submit that this Honorable Court has more important and more pressing demands upon its limited time and resources than to consider an alleged inconsistency between the holding of one case and dicta in another.

Dictum is the part of an opinion that a later court, even if it is an inferior court, is free to reject. Dictum has been defined as:

> 'a statement in a judicial opinion that could have been deleted without seriously impairing the analytical foundations of the holding—that, being peripheral, may not have received the full and careful consideration of the court that uttered it.' [Citation omitted.] '[D]ictum is a general argument or observation unnecessary to the decision.... The basic formula [for distinguishing holding from dictum] is to take account of facts treated by the judge as material and determine whether the contested opinion is based upon them.' [Citation omitted.] A dictum is 'any statement made by a court for use in argument, illustration, analogy or suggestion. It is a remark,

> an aside, concerning some rule of law or legal proposition that is not necessarily essential to the decision and lacks the authority of adjudication.' [Citation omitted.] It is 'a statement not addressed to the question before the court or necessary for its decision.' [Citation omitted.]

United States v. Crawley, 837 F.2d 291, 292 (7th Cir. 1988). Dictum is unnecessary to the decision in a case and is, therefore, not controlling in a subsequent case. *McDaniel v. Sanchez*, 452 U.S. 130, 68 L.Ed. 2d 724, 734, 101 S.Ct. 2224 (1981).

As stated by Chief Justice Marshall nearly 170 years ago:

> 'It is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used. If they go beyond the case, they may be respected, but ought not to control the judgment in a subsequent suit when the very point is presented for decision. The reason of this maxim is obvious. The question actually before the court is investigated with care and considered in its full extent. Other principles which may serve to illustrate it, are considered in their relation to the case decided, but their possible bearing on all other cases is seldom completely investigated.'

Cohens v. Virginia, 6 Wheat. 264, 399-400, 19 U.S. 264, 5 L.Ed. 257, 290 (1821), quoted in *U.S. v. Vignola*, 464 F. Supp. 1091, 1099 n.25 (E.D. Pa. 1979), *aff'd without op.* 605 F.2d 1199 (3rd Cir. 1979), *cert. den.* 444 U.S. 1072, 100 S.Ct. 1015, 62 L.Ed. 2d 753 (1979).

In *Melton*, as noted above, the Court determined that the Motion for Extension of Time to Appeal was filed outside the time limits set forth in Fed. R.A.P. 4(a)(5), regardless of

whether or not the 14 day extension of time permitted by Fed. R.A.P. 4(a)(3) was added to the time permitted to appeal by Fed. R.A.P. 4(a)(1). The Court's statement dealing with the computation of time under Fed. R.A.P. 4(a)(1) and 4(a)(3) constituted dictum. The holding in *Melton* is entirely consistent with the Third Circuit's holding in the instant matter.

The Respondents respectfully submit that the Court should exercise its discretion to deny the Petition for Writ of Certiorari as there is no direct conflict between the holdings of the two cases cited by Petitioners.

In addition, inasmuch as Petitioners are able to cite the Court to only a single decision (dicta) in one other Circuit regarding this issue, Respondents submit that the Court should allow the Courts of Appeals for the other Circuits time to consider this issue before deciding whether a true conflict exists in the Circuits which presents this Court with a special and important reason to exercise its discretion to expend its valuable time in order to resolve such conflict. Consideration at this time would be premature.

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5. The Petition For Writ Of Certiorari Should Be Denied Because The Record Regarding "Excusable Neglect Or Good Cause" Under Fed. R.A.P. 4(a)(5) Is Unclear

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According to Fed. R.A.P. 4(a)(5):

> The district court, upon a showing of excusable neglect or good cause, may extend the time for filing a notice of appeal upon motion filed not later than 30 days after the expiration of the time prescribed by this Rule 4(a).

In the instant case, the Third Circuit did not address the question of "excusable neglect or good cause" pursuant to Fed. R.A.P. 4(a)(5) because of its disposition of the untimeliness issue. Moreover, a review of the record before the District Court will disclose that there existed absolutely no factual basis for a finding of "excusable neglect or good cause." There were no depositions or affidavits filed by Petitioners to properly create such a factual record. Moreover, the District Court did not write an opinion regarding its disposition of the Motion for Enlargement of Time to Appeal. Significantly, a review of the Petition for Writ of Certiorari discloses that the Petitioners never explain the factual basis for a finding of "excusable neglect or good cause." As noted above, this Court may dismiss a Petition for Writ of Certiorari where the record is unclear or obscure. *Taggert v. Weinacker's, Inc., supra.* There is lacking any record for this Court to find an essential element regarding the basis for an extension of the time to appeal, and the Petition for Writ of Certiorari should be denied.

CONCLUSION

For these reasons, the Petition for Writ of Certiorari filed by ORTHO and GAFFNEY should he denied.

Respectfully submitted,
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APPENDIX

BRIEF OF APPELLANTS

IN THE

United States Court of Appeals

FOR THE THIRD CIRCUIT
Appeal No. 89-5417
Orthokinetics, Inc. and,
Edward J. Gaffney,
Appellants
- vs -
Penox Technologies, Inc. and
Larry Hohol,
Appellees,
On Appeal From a Decision of the United States District Court for the Middle District of Pennsylvania
(Judge William J. Nealon, Jr.)

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STATEMENT OF JURISDICTION

The District Court had jurisdiction of the Motion to Vacate and the Cross Motion to Confirm the arbitration award under Title 9, Section 9, and Sections 10 and 11. The arbitration clause in the contract between the parties provides that the American Arbitration Rules would govern. Rule 40(b) of the AAA rules (App. 13) provides that judgment can be entered on the award in any Court. This meets the jurisdictional requirements of 9 USC Section 9. The District Court also had diversity jurisdiction. This Court has jurisdiction of this case under 28 USC Section 1291 because the order for judgment of the Court below was a final order or decision. The District Court denied appellant's motion to vacate and entered judgment confirming the award.

STATEMENT OF ISSUES PRESENTED FOR REVIEW AND STANDARD OF REVIEW

1. Did Orthokinetics establish the statutory ground to vacate the award under 9 U.S.C. §10(d) that the arbitrator exceeded his power by rewriting the royalty terms and amending the agreement?

Standard of Review: The Standard of Review is plenary under 9 U.S.C. §10(d) and this Court:

(a) can independently determine if Orthokinetics established grounds to vacate the award under this statute. This Court is in the same position as the District Court when it comes to reviewing an arbitration award, *Moseley, Hallgarten, Estabrook & Weeden v. Ellis*, 849 F.2d 264 (7th Cir. 1988), at

page 267; *Mutual Fire, Marine & Inland v. Norad Reinsurance,* 868 F.2d 52 (3d Cir. 1989), at page 56.

(b) In addition, this Court can vacate the award if the arbitrator "manifest[s] an infidelity" to her obligation to interpret the contract, *United Steelworkers of America v. Enterprise Wheel & Car Corp.,* 363 U.S. 593, 597, 80 S.Ct, 1358, 1361, 4 L.Ed.2d 1424 (1960), ignores a plain and unambiguous provision of the contract, see *NF & M Corp. v. United Steelworkers of America,* 524 F.2d 756, 759 (3d Cir. 1975); *Apex Fountain Sales, Inc. v. Kleinfeld,* 818 F.2d 1089 (3d Cir. 1987); if the interpretation of the arbitrator cannot in any rational way be derived from the agreement, viewed in the light of its language, its context, and any other indicia of the parties' intention; where there is a manifest disregard of the agreement by the arbitrator, totally unsupported by principles of contract construction. *Ludwig Honold Mfg. Co. v. Fletcher,* 405 F.2d 1123, 1128, (3d Cir. 1969); *Graphic Arts Intern. Union v. Haddon Craftsmen,* 796 F.2d 692 (3d Cir. 1986).

(c) A commercial arbitration award review is not as limited as labor arbitration review. *Swift Industries, Inc. v. Botany Industries, Inc.,* 466 F.2d 1125 (3d Cir. 1972).

2. Should the award be vacated because the arbitrator exceeded his power as limited by 9 USC §10(d) by amending unambiguous royalty provisions which awarded Penox a different royalty than Super Sagless under the same royalty provisions?

Standard of Review: Same as Issue 1 above.

3. Should the award be vacated because the result is irrational where Penox adopts the Super Sagless royalty terms and the arbitrator changes the terms so that Penox, a manufacturer of a complete chair, will always pay the minimum

royalty of $15.00 and never pay a 5% royalty on a chair, whereas subcontractor, Super Sagless, under the same royalty provision, will be required to pay 5%, a greater amount, if it sells a chair rather than a base?

Standard of Review: Same as Issue 1 above.

4. Did the District Court err in construing the award as a permissible interpretation of ambiguous language in the contract rather than a re-writing of the contract beyond the power of an arbitrator, and base its decision on cases giving arbitrators broad powers to interpret rather than basing its decision on 9 USC §10(d) which limits the power of the arbitrator to re-write agreements?

Standard of Review: Same as Issue 1 above.

STATEMENT OF THE CASE

This is an Appeal of a decision confirming an arbitration award and denying a Motion to Vacate the Award in American Arbitration Association Case No. 14 133 0109 88 B/E LU Penox Technologies, Inc. and Orthokinetics, Inc. and Edward J. Gaffney. The arbitration related to a patent license which was part of a settlement in a patent infringement suit commenced by the owners of the Patent Orthokinetics, Inc. and Edward J. Gaffney against the infringers Penox Technologies, Inc., Larry Hohol, Edward Stanks and Joel F. Guerrin, CV-85-1697, in the United States District Court for the Middle District of Pennsylvania, App. 107). The patent infringement action was settled with a consent decree of dismissal with prejudice and a patent license granted by Plaintiff, Orthokinetics and Edward Gaffney to Penox for the patent-in-suit U.S. Patent 4,007,960 (App. 113). The license granted to Penox the

right to continue to manufacture recliner lift chairs, which were the subject of the patent infringement suit, and pay a royalty under the terms and conditions of the patent license. The patent license contained a most favored nation clause and pursuant to that clause, Penox adopted the terms of a subsequent patent license granted to a Mississippi company, Super Sagless, App. 139. Penox sought arbitration to change the license agreement adopted from Super Sagless so that Penox would only have to pay a $15.00 per chair royalty no matter what product was sold — a base or a chair not 5% or $15.00 per chair whichever is greater. The arbitrator made an award changing the adopted Penox license terms to require a royalty from Penox only on the base and also awarded damages to Penox of $32,123.13 for royalties based on the prior Penox agreement which Penox contended it over-paid. Penox's demand for arbitration sought damages in the amount of $55,298.53, App. 100. Orthokinetics filed a Petition or Motion to Vacate the award (App. 21) on the ground among other matters that Penox does not make and sell chair bases separately but incorporates bases made by another company in complete chairs (Petition, App. 26, 29). The District Court denied the Motion to Vacate the award and ordered judgment confirming the award (App. 260). The Appeal is from the judgment.

STATEMENT OF RELATED CASES AND PROCEEDINGS

The patent involved in this suit was involved in three other patent infringement suits in Pennsylvania. All were settled with the grant of a license. There are no cases pending involving arbitration of a patent license.

STATEMENT OF FACTS

Edward Gaffney is the President and founder of Orthokinetics and inventor of the patent subject to the Penox License. Orthokinetics was founded to market to the public an elevator or lift chair which Gaffney had invented for which he obtained a patent. He obtained several patents on elevator lift chairs including the Patent 4,007,960 (Exhibit 4, App. 113), which is the subject of the patent license in this proceeding. Prior to November 22, 1985, Penox was charged with infringement of the patent. Penox refused to stop the infringement and Orthokinetics and Gaffney commenced a suit on November 22, 1985 for patent infringement against Penox and various officers including Joel F. Guerrin (App. 107). Joel F. Guerrin was Executive Vice President, who testified as a witness at the arbitration hearing. There was no transcript made of the hearing or proceedings. However, there is no dispute of the facts which are contained in various exhibits and briefs in the appendix. The complaint, paragraph 16, (App. 110) alleged willful infringement by the officers and Penox. Subsequent to the commencement of the suit and on or about May 21, 1986, the suit was settled by Consent Decree (Exhibit 6, App. 136), which resulted in a final resolution of the allegations in the complaint by dismissing the suit with prejudice against Penox. The Consent Decree was signed on June 9, 1986, App. 138. The patent license which is in dispute (Exhibit 5, App. 124) resulted from negotiations which started in January 1986 by a letter (Exhibit 9, App. 151).

Subsequently, and after settlement of the Penox suit, Super Sagless (SS) of Tupelo, Mississippi contacted Orthokinetics and requested a license so that SS could make

bases for lift chairs, the bases being generally of the type shown in Fig. 4 of the Orthokinetics patent, App. 115. SS also wanted the right in the license to make chairs. The bases constitute the supporting metal framework which contacts the floor. The base includes links and motor actuators which move an upholstered chair frame between reclining and lift positions as shown in the patent. The license to Super Sagless was executed by Super Sagless on May 6, 1987 but became effective as of December 24, 1986, Exhibit 7 (App. 139). This license contained the same royalty provision of 5% or $15 per chair, whichever is greater (App. 140), as in the Penox license, App, 126. The Penox license contained a *most favored nation* or *most favored licensee clause* which enabled Penox to adopt the terms in subsequent licenses which were more favorable.

Orthokinetics informed Penox about the Super Sagless agreement. After obtaining a copy of the Super Sagless license, Penox's patent attorney sent a letter dated January 27, 1988, Exhibit 17 (App. 186), to attorney Henry Fuller, attorney for Orthokinetics. The letter indicated that Penox would adopt the SS agreement. The attorney for Penox admitted in the January 27 letter (App. 186) that the literal wording of the royalty provision in the SS agreement is the same as the comparable language relating to the royalty in the Penox agreement (App. 186). Penox, however, complained that the practical effect of the license resulted in different royalty payments between Penox and Super Sagless because SS primarily sold bases for under $100 (one hundred dollars) and paid a royalty of $15.00 per base. Penox sold chairs, not bases, which chairs had an average price of $397.00, and was paying a 5% royalty.

By letter of January 28, 1988, Exhibit 18 (App. 190), Penox elected under the Most Favored Nations clause, Para-

graph 12 of the Penox license (Exhibit 5, App. 129), the terms of the Super Sagless license.

Penox License—Most Favored Nation Clause

The most favored nation clause under which Penox adopted the Super Sagless provisions provides in part as follows:

> "12. In the event ORTHOKINETICS or GAFFNEY hereafter grants a license under Letters Patent No. 4,007,960 to any other party on terms more favorable than those provided herein, ORTHOKINETICS or GAFFNEY, whichever has granted the license, shall promptly notify PENOX of the granting of such a license and shall provide PENOX with a copy thereof, and PENOX shall have the option, at any time within two (2) months after receiving a copy of said license, to avail itself of such more favorable terms ***" (App. 129)

Although Penox adopted the Super Sagless (SS) license pursuant to the most favored nation clause in the Penox license, Penox did not comply with the royalty specified in the adopted Super Sagless license:

> "which royalty shall be equal to five per cent (5%) *of SS's net selling price for such chair* or $15.00 per chair whichever is greater." App. 140.

Penox does not make and sell bases. Super Sagless (SS) is a sub contractor which primarily sells bases, not chairs. Penox is a manufacturer which sells complete chairs which incorporate bases made for Penox by a local supplier. Because the average sales price of the Penox chairs between 1986 and 1988 is $397.05 the royalty provision of 5% of $397.05 has

applied to Penox with a resulting average royalty of $19.85 per chair. The minimum royalty of $15.00 a chair has not applied because the royalty of $19.85 is the greater of $15.00 or 5% when applied to the chair sales price of $397.05.

Under the same royalty provision, Super Sagless was selling bases for $95.31 and hence the $15.00 royalty was the greater of 5% or $15.00 as applied to $95.31, App. 204. However, Penox initially refused to pay the royalty due under the 5% or $15.00 of the adopted Super Sagless license provisions, and recomputed the past royalties paid, shown on the attachment to Exhibit 2, page 0105 to pay only $15 per chair which incorporated the base, rather than 5%. As a result of Penox's failure to pay the full royalties due under the terms of the Penux or Super Sagless license, Orthokinetics gave notice of termination of the license by letter of February 19, 1988, Exhibit 23, App. 198. Prior to expiration of the 60 days notice of termination, Penox paid the royalty deficiency under protest with a letter of transmittal, Exhibit 23, and a check for $51,477 attached thereto, App. 198. The amounts paid under protest consisted of the sums which, in the arbitration, Penox contended should be repaid to Penox, as well as past royalties paid at the rate of 5% not $15.00. The arbitration was initiated in March, 1988 by Penox by the filing of the arbitration demand (App. 100).

Summary of Argument

Orthokinetics has established the grounds to vacate the award under 9 USC §10(d) in that the arbitrator exceeded his power and amended and rewrote the agreement. Orthokinetics has also established the judicially created ground for vacat-

ing the award under 9 USC §10(d) in that the award is not rationally based on the agreement.

This Court is in the same position as the District Court to determine whether Orthokinetics has met the statutory requirements to vacate the award on these grounds, *Moseley, Hallgarten, Estabrook & Weeden v. Ellis*, 849 F.2d 264 (7th Cir. 1988), at page 267; *Mutual Fire Marine & Inland v. Norad Reinsurance*, 868 F.2d 52 (3d Cir. 1989), at page 56.

The arbitrator's award should be vacated because it disregarded the plain unambiguous royalty provisions, which constitutes a re-writing of the agreement, *Inter-City Gas Corp. v. Boise Cascade Corp.*, 845 F.2d 184 (8th Cir. 1988).

This is not a case where there is a dispute as to the interpretation of an ambiguous term in the agreement. The royalty provision is unambiguous and neither party has urged a different interpretation of the same contract terms. Penox admitted that the terms are the same for Penox and SS. They have to be. *Penox adopted the SS terms*. Then Penox got the notion that it wanted the SS terms changed so the word "chair" would mean "base". But as far as SS is concerned, "chair" would still mean chair. The arbitrator's modification of the terms in accordance with Penox's request is not an interpretation of the agreement, but, rather, it is an amendment or re-writing of the original agreement.

The issue is not whether the arbitrator correctly interpreted the agreement. The issue is whether he had the power to rewrite the agreement. The law is clear that neither a Court nor an arbitrator can rewrite the unambiguous terms of an agreement.

The District Court erred in its analysis of the issue and relied on cases which give broad powers to arbitrators to

interpret agreements (See Add. 10, App. 254) rather than case law which prohibits the amendment of contracts by arbitrators.

In addition, the award is not rationally based on the agreement and should be set aside because it results in lower royalty payments for Penox than Super Sagless, even though both parties operate under the same royalty provisions. The most favored licensee clause only affords Penox the same or equal royalty terms, not different and lower royalties than the subsequent licensee, SS, from the license terms that were adopted. The Penox and SS licenses, before being modified by the arbitrator, are consistent with the philosophy of the applicable patent statutes and the intent of the parties that direct infringers of the entire chair (Penox) covered by the claims pay a higher royalty than a subcontractor (SS) who sells only part of the patented subject matter. The award, which amended the contract, effectively removes the 5% royalty from the contract and Penox will pay $15.00 if it sells a base and $15.00 if it sells a chair incorporating a base. Thus, the award is not rationally based on the agreement and should be set aside because it not only allows Penox to pay a lower royalty than that which it clearly consented to when it adopted the SS agreement, but it is also inconsistent with the equal treatment that Penox has already been granted by receiving equal terms under the most favored licensee clause. Thus, since Penox has accepted the 5% or $15.00 (which ever is greater) license, which is *equivalent* to the provisions of the SS license, it should not be allowed to pay lower royalties than SS simply because the arbitrator dispensed his own form of justice by *rewriting* the agreement. As a result of the modification, Penox has an award which results in a 3.8% royalty (i.e. $15.00 for $397.05 chair) and SS pays a royalty of 17.3% (i.e. $15.00 for a base

sold for $86.81). Moreover, when SS sells a chair for $397.00 it will be a 5% royalty or $19.85 per chair. This result cannot be derived rationally from the agreement.

ARGUMENT

I. The arbitrator did not interpret the agreement, he amended the agreement.

The District Court ignored the precedents of this Court requiring that the essence of the award be found in the agreement itself. Although the District Court examined the appropriate authorities it did not follow the applicable law set forth therein. It is clear that the Court below considered the arbitrator's award to involve an interpretation of the agreement rather than a re-writing of the agreement App. 251, 254. In *Kane Gas Light & Heating v. Intern. Broth., etc.*, 687 F.2d 673 (3d Cir. 1982). This Court stated at page 678:

> "To be sure, there are limits to the deference accorded to the arbitrator's decision; the arbitrator may not simply "dispense his own brand of industrial justice," *Honold, supra,* 405 F.2d at 1125, quoting *United Steelworkers of America v. Enterprise Wheel and Car Corp.*, 363 U.S. 593, 597, 80 S.Ct. 1358, 1360, 4 L.Ed.2d 1424 (1965). Thus, if an arbitrator's award is made 'in *manifest disregard of the agreement, totally unsupported by principles of contract construction* and the law of the shop', 405 F.2d at 1128, the courts will not enforce the award. (footnote omitted) Otherwise, though, so long as the award "draws its essence from the collective bargaining agreement," *id.*, the courts will defer to the arbitrator's

> decision, a point which has been reaffirmed repeatedly by this court. See *Sun Petroleum Products Co. v. Oil, Chemical and Atomic Workers International Union, Local 8-901*, 681 F.2d 924 at 928 (3d Cir. 1982); *Mobil Oil Corp. v. Independent Oil Workers Union*, 679 F.2d 299 at 302 (3d Cir. 1982); *ARCO-Polymers, Inc. v. Local 8-74*, 671 F.2d 752, 755 (3d Cir. 1982) (per curiam). (emphasis supplied)

It is noted that the Third Circuit has held that some of the principles governing labor and commercial arbitration are similar but it is more difficult to overturn a labor case than a commercial arbitration case. *Swift Industries, Inc. v. Botany Industries, Inc.*, 466 F.2d 1125 (3d Cir. 1972).

It cannot be said that the arbitrator's award is a permissible interpretation of the agreement, where in complete disregard of the agreement, the arbitrator re-rewrote the royalty provisions.

The arbitrator's award is in part as follows:

> 1. ORTHOKINETICS, INC. and EDWARD J. GAFFNEY, hereinafter referred to as RESPONDENTS, shall pay to PENOX TECHNOLOGIES, INC., hereinafter referred to as CLAIMANT, the sum of THIRTY-TWO THOUSAND ONE HUNDRED TWENTY-THREE DOLLARS AND THIRTEEN CENTS ($32,123.13), plus interest at the rate of 6% percent per annum from January 28, 1988 to date of payment.
>
> 2. Under the "Most Favored Licensee" provision of the Agreement between the parties, CLAIMANT is entitled to pay 5% royalty on the net selling price of the *Mecha-*

nism Base or **Fifteen Dollars** ($15.00) whichever is greater from January 28, 1988. (App. 206)

The royalty provision in the original Penox license is as follows:

> *** which royalty shall be equal to five per cent (5%) of Penox's net selling price for such chair or $15.00 per chair, whichever is greater.

The royalty provision in the adopted Super Sagless license agreement provides as follows:

SUPER SAGLESS LICENSE

> *** Which royalty shall be equal to five per cent (5%) of SS's net selling price for such *chair* or $15.00 per chair, whichever is greater. (App. 140.)
>
> (arbitrator deleted chair and substituted mechanism base)

In making the award the arbitrator rewrote the Super Sagless royalty provision and made a new contract between the parties to require payment of a royalty of 5% or $15.00 only on the "Mechanism Base" and not 5% or $15.00 (whichever is greater) on the net selling price on the "entire chair" which includes a chair shell with a wooden frame and upholstery. The licensed patent claims under which Penox is operating relate to an entire chair rather than just a base mechanism. See claims 1, 7, 9, App. 122. All other licensees under this patent have a royalty provision of at least 5% per chair as well as a minimum of $15 to $25. (undisputed testimony of Gaffney). Because Penox sells only chairs at an average of $397.05 net selling price, as a result of the award, 5% or $15.00 per base mechanism, Penox is only paying a $15.00 royalty on the base mechanism part of the chair. The 5% royalty on a chair has been, in,

effect completely eliminated because bases cost Penox less than $100.00 and would sell for under $100.00.

Penox never made or sold bases but purchased the bases from a sub-contractor and assembled the bases with upholstered chair frames, made by Penox. Moreover, there is no "net selling price for bases" recovered by Penox from a sale of a chair. It is not separately invoiced to customers.

The 5% royalty in the Super Sagless Agreement, adopted by Penox, is to be applied to the "net selling price":

> 5. The term "net selling price" as used herein shall mean the selling price actually received by SS after deduction of sales taxes but without deduction of any commission, allowance or discount other than a discount ordinarily given. (App. 141)

As a result of the award, Penox has a better deal under the same royalty provision, than Super Sagless even though they are both operating under the identical contract clause.

RESULT OF ARBITRATION AWARD

PENOX

		Sales Price	**Royalty**
After Award	Chair	$397	$15.00
After Award	Chair Base*	Cost-$50.00	$15.00
Prior to Award	Chair	$397	$19.83 (5%)

**Penox did not sell bases at the time of arbitration hearing*

SUPER SAGLESS

	Sales Price	**Royalty**
Chair	$397	$19.85 (5%)
Chair Base	97	15.00

As is apparent from the above chart, based on the arbitrator's award under the same contract language, Penox pays the royalty of $15 per chair which sell for $397 and SS pays $15 per chair for a base that sells for $97. SS, however, would have to pay a royalty of 5% of $397 or $19.85 for a chair it sold at the net selling price of $397.00. The purpose of most favorable nation or licensee clauses is to grant an earlier licensee the same or more favorable *royalty terms* as a later licensee. The award does not do this and Penox clearly has an advantage over SS based on a selling price-royalty ratio. The royalty terms of the Penox and SS licenses are identical. Thus, the award goes beyond the intent of the parties in the original license between Penox and Orthokinetics to give equal royalty terms to all licensees. The arbitrator *rewrote* the royalty agreement to be 5% or $15 per *mechanism base*, rather than 5% of SS net selling price or $15 per *chair*, whichever is greater, App. 140. The award clearly exceeds the scope of the intent of the parties and is not rationally based on the Agreement. Consequently, the award should be vacated on this ground.

II. The arbitrator disregarded the unambiguous language, which constitutes amendment of the agreement and exceeds the arbitrator's authority.

The Court below erred because it did not recognize the limitations on the power of the arbitrator to construe, interpret or re-write the agreement other than that the result cannot be "Irrational". Add. 12, App. 256. The various precedents of this Court and others under 9 USC §10 have limited the arbitrator's power to interpret only ambiguous terms with no power to interpret non-ambiguous terms which constitutes rewriting of the agreement.

An Arbitrator is confined to interpretation and application of the agreement and does not sit to dispense his own form of justice. The award is legitimate only so long as it draws its essence from the agreement. When the award is not based on the agreement, the Courts have no choice but to refuse to enforce the award, *United Steelworkers of America v. Enterprise Wheel & Car Corp.*, 363 U.S. 593, 80 S.Ct. 1358 (1960).

The Third Circuit interpreted this Supreme Court decision as follows, at page 1128:

> "Accordingly, we hold that a labor arbitrator's award does 'draw its essence from the collective bargaining agreement' if the interpretation can in any *rational way be derived from the agreement, viewed in the light of its language, its context, and any other indicia of the parties' intention;* only where there is a manifest disregard of the agreement, totally unsupported by principles of contract construction and the law of the shop, may a reviewing court disturb the award." *Ludwig Honold Mfg. Co. v. Fletcher,* 405 F.2d 1123 (3d Cir. 1969). (emphasis supplied)

In *NF&M Corp. v. United Steelworkers of America,* 524 F.2d 756 (3d Cir. 1975), this Court stated:

> "If the arbitrator's award has deviated from the plain meaning of a labor contract provision, it must find support in the contract itself or in prior practices demonstrating relaxation of the literal language. *H.K. Porter Co., Inc. v. United Saw, File and Steel Products Workers of America,* 333 F.2d 596 (3d Cir. 1964)", at page 759.

In *Detroit Coil v. Intern. Ass'n of M. & A. Workers, etc.,* 594 F.2d 575 (6th Cir. 1979) the Court vacated the award under 9 USC §10(d). The Court said that a "word" in the

agreement which was in dispute had to be given the ordinary meaning and there was no evidence that the parties intended to deviate from that meaning. The Court held the arbitrator had exceeded his authority. The Court stated at page 579:

> "The arbitrator is confined to the interpretation and application of the collective bargaining agreement, and although he may construe ambiguous contract language, he is without authority to disregard or modify plain and unambiguous provisions."

Other cases which vacated the award where the arbitrator exceeded his power include *Monongahela Power Co. v. Local No. 2332, Intern. Bro.*, 566 F.2d 1196 (4th Cir. 1976) where the Court stated in referring to the arbitrator, at page 1199:

> "His function is confined to the interpretation and application of the collective bargaining agreement under which he acts and, while he may give his own construction to ambiguous language (footnote omitted), he is without any authority to disregard or modify plain and unambiguous provisions (footnote omitted). This is a well-established principle of the law; it is, also, specifically so provided in the agreement in this case (footnote omitted)."

In the case of *Inter-City Gas Corp. v. Boise Cascade Corp.*, 845 F.2d 184 (8th Cir. 1988), the Court reversed the District Court and vacated the arbitrator's award under 9 USC §10(d) because the arbitrator ignored the plain language of the contract. The Court held that the arbitrator exceeded his authority under the contract. The Court stated on page 187:

> "As the Supreme Court has stated in the labor context, '[t]he arbitrator may not ignore the plain language of the contract.' *United Paperworkers Int'l Union*, 108 S.Ct. at

> 371. More specifically, if the arbitrator interprets unambiguous language in any way different from its plain meaning, [the arbitrator] amends or alters the agreement and acts without authority. *District No. 72 & Local Lodge 1127, Int'l Assoc. of Mach. & Aerospace Workers v. Teter Tool & Die, Inc.*, 630 F.Supp. 732, 736 (N. D. Ind. 1986) (labor arbitration). Thus, we will review the arbitration award to ensure it is grounded on the parties contract."

The rewriting of non-ambiguous terms of an agreement by an arbitrator does not constitute a permissible interpretation of the agreement. The Court below erred in ignoring the limitation on the power of arbitrators in commercial arbitration cases.

Penox may have acquired the right to make bases as well as chairs by adopting the SS agreement. The Penox agreement, however, limited Penox to making only chairs. The original Penox license provides in part

> *** This license is limited to reclining elevator chair mechanism designs which PENOX is currently manufacturing or assembling (App. 126).

However, Penox had chosen not to make bases. Penox has made the choice to make chairs, not bases, and should pay the same royalty for chairs as SS pays for chairs, 5% or $15.00, whichever is greater.

The license provisions in both the Penox and Super Sagless licenses establish a royalty *floor* assuring the licensor ORTHOKINETICS receipt of a *minimum* of $15 for each licensed sale, regardless of the sales price or nature of article sold. These provisions are commonplace in patent licensing.

The patent claims (Exhibit 4, pages 122-123) all apply to an entire chair and *Orthokinetics is entitled to a royalty on the*

entire chair under the license as if it had obtained a judgment for damages. The entire market value rule allows for the recovery of damages based upon the value of the entire chair. *TWM Mfg. Co. Inc. v. Dura Corp.*, 789 F.2d 895, 901 (Fed.Cir. 1986). If Orthokinetics had pursued the infringement suit to judgment it would have been entitled to as a minimum, a reasonable royalty pursuant to 35 USC 284 on the entire chair rather than merely the base. Penox agreed to pay a 5% royalty on an entire chair. So did Super Sagless. It makes no sense to limit the scope of the patent to only require the licensee Penox to pay a royalty on only a chair base for immunity from suit after Orthokinetics went to the expense of suit to stop an infringement. This is contrary to the intent of the parties. Penox agreed to 5% on all chairs after the date of settlement, App. 169. Orthokinetics did not agree in either the Penox or SS licenses to receive only royalties on the chair base where complete chairs are sold by the licensee.

In The Matter of *Board of Education of North Babylon Union Free School District v. North Babylon Teachers' Organization*, 479 N.Y.S. 2d 536 (A.D. 2.Dept. 1984). The Court vacated the arbitrator's award because it went beyond the contract. The Court stated as follows:

> "The arbitration award challenged in the instant proceeding is analogous to that encountered in *County of Ontario v. Civil Serv. Employees Ass'n., Ontario County Chapter*, 76 Misc.2d 365, 351 N.Y.S.2d 101, Aff'd. 46 A.D.2d 738, 361 N.Y.S.2d 1021, which the court vacated pursuant to CPLR 7511 (subd.[b], par.1, cl. [iii], after concluding that the arbitrator exceeded his powers when he "modified the contract by including a provision adding to its terms and in effect he made a new contract for the parties . . . In making the award he did not draw

his conclusion from the agreement itself but went beyond the contract. This was not a mere error of judgment, either as to fact or law, but the clear case of an arbitrator rewriting the contract to the prejudice of the petitioner and the court must refuse to enforce the award" (*County of Ontario v. Civ. Serv. Employees Ass'n, Ontario County Chapter, supra,* 76 Misc.2d pp. 367-368, 351 N.Y.S.2d 101).

The legal authorities submitted herein preclude any action by the arbitrator in changing the negotiated royalty rates in the Super Sagless agreement.

The arbitrator is only empowered to uphold the parties' agreement. The arbitrator has no equitable powers to *re-write* the royalty rate. In *OEHMKE Commercial Arbitration,* published 1987 by Lawyers Cooperative Publishing, Page 312, the author states:

> "**Court of equity.** An arbitrator does not sit as a "court of equity". An arbitrator's power is derived from the contract, not equity. Though arbitrators may grant equitable kinds of relief (e.g. injunction, specific performance, etc.), ". . . the arbitrator is not a chancellor and possesses no equitable powers except as the submission may expressly grant such powers." *Carr v. Kalamazoo Vegetable Parchment Co.,* 354 Mich 327, 92 NW2d 295 (1958). The arbitrator must abide by the standards set forth by the parties."

In the arbitration clause of the Penox or Super Sagless agreement, there is no power granted to the arbitrator allowing him to re-write the rates. Just as a court cannot, under the guise of construction, modify or create a new contract, an arbitrator cannot, under the guise of construction, create a

new contract. This is well established. In 17 AmJur2d Section 242 Contracts, the following appears:

> "It is a fundamental principle that a court may not make a new contract for the parties or rewrite their contract under the guise of construction. In other words, the interpretation or construction of a contract does not include its modification or the creation of a new or different one. It must be construed and enforced according to the terms employed, and a court has no right to interpret the agreement as meaning something different from what the parties intended as expressed by the language they saw fit to employ. A court is not at liberty to revise, modify, or distort an agreement while professing to construe it, and has no right to make a different contract from that actually entered into by the parties. Courts cannot make for the parties better or more equitable agreements than they themselves have been satisfied to make, or rewrite contracts because they operate harshly or inequitably as to one of the parties, or alter them for the benefit of one party and to the detriment of the other, or, by construction, relieve one of the parties from terms which he voluntarily consented to, or impose on him those which he did not."

III. Penox is not entitled to pay the same royalty for its chair as SS, the subcontractor pays for its base.

A patentee can exact royalties from different levels in the manufacture of a product. In addition, a patentee can collect different royalties from contributory infringers and direct infringers. The royalty provisions in the Penox and SS licenses

are consistent with how patent law treats contributory infringers and direct infringers and also the intent of the parties to those agreements.

The patent infringement statutes Title 35, Section 271 defines various categories of infringers in 271(a); direct infringers; and 271(c) contributory infringers. In the facts in this case, if Super Sagless did not have a license it would be a contributory infringer because it makes and sells only the base, only a part of the elements covered. In an infringement suit the reasonable royalty it would collect from a sub-contractor would be different that it would collect from a manufacturer who sells the complete chair. The reasonable royalty test for damages applied to a subcontractor and to a manufacturer of an entire chair would provide different reasonable royalties. The reasonable royalty analysis is based on a hypothetical licensing negotiation between a willing licensor and a willing licensee and determines, based upon this, what reasonable royalty would have been agreed to. *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1561 (Fed. Cir. 1983).

In *Georgia Pacific Corp. v. United States Plywood Corp.*, 318 F.Supp. 1116 (S.D.NY. 1970), modified and affirmed *sub nom. Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2nd Cir.), *cert. denied*, 404 U.S. 870 (1971), fifteen evidentiary factors are listed that are relevant to the determination of a reasonable royalty. The Federal Circuit has approved the law in this case.

Typically, in a willing licensor-licensee situation, a licensee will not pay more than one-fourth to one-third of his profit as a royalty. Thus a base maker who has a smaller profit on the sale of a base at $95.00 than a manufacturer who sells the entire chair at $400.00 will not be willing to pay as high a royalty as the chair maker. Yet in this case Penox wants to pay

the same lower royalty as a sub-contractor. The charts, addendum pages 17 and 18, demonstrate the higher profit of Penox than SS and Mississippi Medical, the purchaser from SS. It is apparent that Penox has the better deal than SS, which pays a royalty of $15.00 on the base it sells for $86.00 equivalent to a 17% royalty (these charts were before the Court below). It is apparent from the foregoing that the award is not rationally based on the agreement, or the intent of the parties or common sense. If Penox wants a $15.00 royalty it can operate as a sub-contractor and make bases rather than chairs. Percentage royalties are recognized as the fairest arrangement between patentees and infringers. In this case the arbitrator has effectively eliminated the percentage royalty for the chair from the agreement.

IV. The arbitration award based on the lack of power of the arbitrator is subject to being vacated under the Federal Arbitration Act.

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9 U.S.C. §10(d) provides as follows:

10. **Same; vacation; grounds; rehearing**

In either of the following cases the United States court in and for this District wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

(a) Where the award was procured by corruption, fraud, or undue means.

(b) Where there was evident partiality or corruption in the arbitrators, or either of them.

(c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause

shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(d) *Where the arbitrators exceeded their powers,* or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

(e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators. (emphasis supplied)

The Federal Statute is based on the New York statute and New York cases are of interest in applying the New York Statute. See *The Hartbridge Case,* 57 F.2d 672 (1932, CA2, NY). In *Swift Industries, Inc. v. Botany Industries, Inc.,* 466 F.2d 1125 (3d Cir. 1972), the Third Circuit considered New York arbitration cases as relevant law.

Pertaining to vacating or modifying an arbitration award, the New York statute states that grounds for vacating an award include instances when "an arbitrator, or agency or person making the award exceeded his power or so imperfectly executed it that a final and definite award upon the subject matter submitted was not made" (CPLR §7511(b)(iii)).

The current New York case law which interprets "exceeded his power", is based on *Lentine v. Fundaro,* 328 NYS2d 418 (1972), which is applied in the cases that followed *Fundaro.* In *Civil Serv. Emp. Ass'n v. County of Steuben,* 377 NYS2d 849 (1976), the Court stated at page 853, 854, in holding that the arbitrator exceeded his power by writing a new contract for the parties:

"There are two basic factors which have been considered in determining whether an arbitrator acted in excess of his power. First, was the construction given the contract document by the arbitrator completely irrational (*Lentine v. Fundaro, supra,* p.385, 328 NYS2d pp. 421-422, 278 NE2d p.635; *Matter of National Cash Register Co.[Wilson]*, 8 NY2d 377, 383, 208 NYS2d 951, 955-956, 171 NE2d 302, 305) and, second, did the contract agreement itself expressly limit the power of the arbitrator (*Lentine v. Fundaro, supra*, 29 NY2d pp. 385-386, 328 NYS2d pp. 421-423, 278 NE2d pp. 635-636; *Matter of Granite Worsted Mills [Cowen], supra*, 25 NY2d pp. 456-457, 306 NYS2d pp. 938-939, 255 NE2d pp. 170-171)? In effect, the question can be stated as follows: Did the arbitrator merely interpret the existing Agreement or did he, in fact create a new contract (*Matter of National Cash Register Co. [Wilson], supra*, 8 NY2d p. 383, 208 NYS2d pp. 955-956, 171 NE2d p. 305)?"

In *Simpson v. North Collins Central School Dist.*, 392 NYS2d 107 (1977), the court, in reversing the award of an arbitrator, stated at page 110:

"We conclude that the arbitrator's imposition of *ex post facto* procedural standards for the evaluation of the grievants was tantamount to the making of a new contract for the parties, and was therefore in excess of his powers."

In *The Roosevelt Hospital v. Dennis M. Silverman, etc.*, 392 NYS2d 580 (1977), the Court commented at page 580:

"In these circumstances, an award requiring the employer to pay the grievant employees under the clause forbidding sub-contracting of bargaining unit work means that the Arbitrator 'gave a completely irrational construction to the provisions in dispute and, in effect,

made a new contract for the parties.*** The arbitrator therefor 'exceeded his power' withia the meaning of CPLR §7511(b)1(iii) and *Matter of National Cash Register Co. [Wilson], supra.*"

CONCLUSION

The arbitrator's award changing the royalty rate from the net selling price of the chair to the net selling price of the mechanism base and awarding $32,123.13 to Penox based on the rewritten royalty provision is without basis in the license, the intent of the parties or contract law. The royalty provision is not ambiguous and there is no rule of contract construction which would permit the change in the contract made by the arbitrator. As a result of the award, Penox can sell a chair for $400.00 and pay a royalty of $15.00 on the base for the chair and pay nothing for the chair shell. SS, an the other hand, will be required to pay a royalty on the entire chair, i.e., 5% or $15.00, whichever is greater which would be $20.00 on a $400.00 chair. This was not the intent of the most favored nation clause.

This Court can make disposition of the royalty issue without remand. *First Nat'l Bank v. Lincoln National Life Ins. Co.*, 824 F.2d 277, 281-82 (3d Cir. 1987).

For the foregoing reasons this Court should vacate the award pursuant to 9 USC Section 10 and conclude that the arbitrator had no authority to change the royalty provisions and set aside the monetary award.

DATED this day of June, 1989,

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By

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